SOCIAL SECURITY AMENDMENTS OF 1983

Volumes 1-3
H.R. 1900
PUBLIC LAW 98-21 — 98th CONGRESS

REPORTS, BILL,
DEBATES, AND ACT

DEPARTMENT OF
HEALTH AND HUMAN SERVICES
Social Security Administration

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Volume 3

DEPARTMENT OF
HEALTH AND HUMAN SERVICES
Social Security Administration
Office of Policy
Office of Legislative and Regulatory Policy

PREFACE

This three-volume compilation contains historical documents pertaining to the Social Security Amendments of 1983. The books contain congressional debate, a chronological compilation of documents pertinent to the legislative history of the 1983 amendments and listings of relevant reference materials. Pertinent documents include:

- Committee Reports and Selected Prints
- Differing Versions of Key Bills
- Summaries of Provisions
- Cost Estimates
- The 1983 Act
- Historical Descriptions

The books are prepared by the Office of Legislative and Regulatory Policy, Legislative Reference Office, and are designed to serve as helpful resource tools for those charged with interpreting laws administered by the Social Security Administration.

John Trout, Director
Office of Legislative
and Regulatory Policy

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An Act

To assure the solvency of the Social Security Trust Funds, to reform the medicare reimbursement of hospitals, to extend the Federal supplemental compensation program, and for other purposes.

Apr. 20, 1983
[H.R. 1900]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Social Security Amendments of 1983.

SHORT TITLE

SECTION 1. This Act, with the following table of contents, may be cited as the "Social Security Amendments of 1983".

42 USC 1305 note.

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TITLE I—PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM

PART A—COVERAGE

COVERAGE OF NEWLY HIRED FEDERAL EMPLOYEES

SEC. 101. (a)(1) Section 210(a) of the Social Security Act is amended by striking out paragraphs (5) and (6) and inserting in lieu thereof the following: 42 USC 410.

"(5) Service performed in the employ of the United States or any instrumentality of the United States, if such service—

"(A) would be excluded from the term 'employment' for purposes of this title if the provisions of paragraphs (5) and (6) of this subsection as in effect in January 1983 had remained in effect, and

"(B) is performed by an individual who (i) has been continuously in the employ of the United States or an instrumentality thereof since December 31, 1983 (and for this purpose an individual who returns to the performance

of such service after being separated therefrom following a previous period of such service shall nevertheless be considered upon such return as having been continuously in the employ of the United States or an instrumentality thereof, regardless of whether the period of such separation began before, on, or after December 31, 1983, if the period of such separation does not exceed 365 consecutive days), or (ii) is receiving an annuity from the Civil Service Retirement and Disability Fund, or benefits (for service as an employee) under another retirement system established by a law of the United States for employees of the Federal Government (other than for members of the uniformed services);

except that this paragraph shall not apply with respect to—

"(i) service performed as the President or Vice President of the United States,

"(ii) service performed—

"(I) in a position placed in the Executive Schedule under sections 5312 through 5317 of title 5, United States Code,

"(II) as a noncareer appointee in the Senior Executive Service or a noncareer member of the Senior Foreign Service, or

"(III) in a position to which the individual is appointed by the President (or his designee) or the Vice President under section 105(a)(1), 106(a)(1), or 107 (a)(1) or (b)(1) of title 3, United States Code, if the maximum rate of basic pay for such position is at or above the rate for level V of the Executive Schedule,

"(iii) service performed as the Chief Justice of the United States, an Associate Justice of the Supreme Court, a judge of a United States court of appeals, a judge of a United States district court (including the district court of a territory), a judge of the United States Claims Court, a judge of the United States Court of International Trade, a judge of the United States Tax Court, a United States magistrate, or a referee in bankruptcy or United States bankruptcy judge,

"(iv) service performed as a Member, Delegate, or Resident Commissioner of or to the Congress, or

"(v) any other service in the legislative branch of the Federal Government if such service is performed by an individual who, on December 31, 1983, is not subject to subchapter III of chapter 83 of title 5, United States Code;

5 USC 8331.

"(6) Service performed in the employ of the United States or any instrumentality of the United States if such service is performed—

"(A) in a penal institution of the United States by an inmate thereof;

"(B) by any individual as an employee included under section 5351(2) of title 5, United States Code (relating to certain interns, student nurses, and other student employees of hospitals of the Federal Government), other than as a medical or dental intern or a medical or dental resident in training; or

"(C) by any individual as an employee serving on a temporary basis in case of fire, storm, earthquake, flood, or other similar emergency;".

(2) Section 210(p) of such Act is amended by striking out "provisions of—" and all that follows and inserting in lieu thereof "provisions of subsection (a)(5).". 96 Stat. 560. 42 USC 410.

(b)(1) Section 3121(b) of the Internal Revenue Code of 1954 is amended by striking out paragraphs (5) and (6) and inserting in lieu thereof the following: 26 USC 3121.

"(5) service performed in the employ of the United States or any instrumentality of the United States, if such service—

"(A) would be excluded from the term 'employment' for purposes of this title if the provisions of paragraphs (5) and (6) of this subsection as in effect in January 1983 had remained in effect, and

"(B) is performed by an individual who (i) has been continuously in the employ of the United States or an instrumentality thereof since December 31, 1983 (and for this purpose an individual who returns to the performance of such service after being separated therefrom following a previous period of such service shall nevertheless be considered upon such return as having been continuously in the employ of the United States or an instrumentality thereof, regardless of whether the period of such separation began before, on, or after December 31, 1983, if the period of such separation does not exceed 365 consecutive days), or (ii) is receiving an annuity from the Civil Service Retirement and Disability Fund, or benefits (for service as an employee) under another retirement system established by law of the United States for employees of the Federal Government (other than for members of the uniformed services);

except that this paragraph shall not apply with respect to—

"(i) service performed as the President or Vice President of the United States,

"(ii) service performed—

"(I) in a position placed in the Executive Schedule under sections 5312 through 5317 of title 5, United States Code,

"(II) as a noncareer appointee in the Senior Executive Service or a noncareer member of the Senior Foreign Service, or

"(III) in a position to which the individual is appointed by the President (or his designee) or the Vice President under section 105(a)(1), 106(a)(1), or 107 (a)(1) or (b)(1) of title 3, United States Code, if the maximum rate of basic pay for such position is at or above the rate for level V of the Executive Schedule,

"(iii) service performed as the Chief Justice of the United States, an Associate Justice of the Supreme Court, a judge of a United States court of appeals, a judge of a United States district court (including the district court of a territory), a judge of the United States Claims Court, a judge of the United States Court of International Trade, a judge of the United States Tax Court, a United States magistrate, or a referee in bankruptcy or United States bankruptcy judge,

"(iv) service performed as a Member, Delegate, or Resident Commissioner of or to the Congress, or

"(v) any other service in the legislative branch of the Federal Government if such service is performed by an

individual who, on December 31, 1983, is not subject to subchapter III of chapter 83 of title 5, United States Code;

5 USC 8331.

"(6) service performed in the employ of the United States or any instrumentality of the United States if such service is performed—

"(A) in a penal institution of the United States by an inmate thereof;

"(B) by any individual as an employee included under section 5351(2) of title 5, United States Code (relating to certain interns, student nurses, and other student employees of hospitals of the Federal Government), other than as a medical or dental intern or a medical or dental resident in training; or

"(C) by any individual as an employee serving on a temporary basis in case of fire, storm, earthquake, flood, or other similar emergency;".

96 Stat. 559.
26 USC 3121.

(2) Section 3121(u)(1) of such Code is amended to read as follows:

"(1) IN GENERAL.—For purposes of the taxes imposed by sections 3101(b) and 3111(b), subsection (b) shall be applied without regard to paragraph (5) thereof.".

42 USC 409.

(c)(1) Section 209 of the Social Security Act is amended by adding at the end thereof the following new paragraph:

"For purposes of this title, in the case of an individual performing service under the provisions of section 294 of title 28, United States Code (relating to assignment of retired justices and judges to active duty), the term 'wages' shall, subject to the provisions of subsection (a) of this section, include any payment under section 371(b) of such title 28 which is received during the period of such service.".

26 USC 3121.

(2) Section 3121(i) of the Internal Revenue Code of 1954 (relating to computation of wages in certain cases) is amended by adding at the end thereof the following new paragraph:

"(5) SERVICE PERFORMED BY CERTAIN RETIRED JUSTICES AND JUDGES.—For purposes of this chapter, in the case of an individual performing service under the provisions of section 294 of title 28, United States Code (relating to assignment of retired justices and judges to active duty), the term 'wages' shall, subject to the provisions of subsection (a)(1) of this section, include any payment under section 371(b) of such title 28 which is received during the period of such service.".

Effective date.
26 USC 3121 note.

(d) The amendments made by this section shall be effective with respect to remuneration paid after December 31, 1983.

Entitlements.
42 USC 410 note.

(e) Nothing in this Act shall reduce the accrued entitlements to future benefits under the Federal Retirement System of current and retired Federal employees and their families.

COVERAGE OF EMPLOYEES OF NONPROFIT ORGANIZATIONS

42 USC 410.

SEC. 102. (a) Section 210(a)(8) of the Social Security Act is amended—

(1) by striking out "(A)" immediately after "(8)";

(2) by striking out "subparagraph" where it first appears and inserting in lieu thereof "paragraph"; and

(3) by striking out subparagraph (B).

26 USC 3121.

(b)(1) Section 3121(b)(8) of the Internal Revenue Code of 1954 is amended—

(A) by striking out "(A)" immediately after "(8)";

(B) by striking out "subparagraph" where it first appears and inserting in lieu thereof "paragraph"; and

(C) by striking out subparagraph (B).

(2) Section 3121(k) of such Code is repealed. 26 USC 3121.

(3) Section 3121(r) of such Code is amended—

(A) by striking out "subsection (b)(8)(A)" and "section 210(a)(8)(A)" in paragraph (3) and inserting in lieu thereof "subsection (b)(8)" and "section 210(a)(8)", respectively; and

(B) by striking out paragraph (4).

(c) The amendments made by the preceding provisions of this section shall be effective with respect to service performed after December 31, 1983 (but the provisions of sections 2 and 3 of Public Law 94-563 and section 312(c) of Public Law 95-216 shall continue in effect, to the extent applicable, as though such amendments had not been made). Effective date. 26 USC 3121 note. 26 USC 3121 note.

(d) The period for which a certificate is in effect under section 3121(k) of the Internal Revenue Code of 1954 may not be terminated under paragraph (1)(D) or (2) thereof on or after March 31, 1983; but no such certificate shall be effective with respect to any service to which the amendments made by this section apply. 26 USC 3121 note. *Supra.*

(e)(1) If any individual— 42 USC 414 note.

(A) on January 1, 1984, is age 55 or over, and is an employee of an organization described in section 210(a)(8)(B) of the Social Security Act (A) which does not have in effect (on that date) a waiver certificate under section 3121(k) of the Internal Revenue Code of 1954 and (B) to the employees of which social security coverage is extended on January 1, 1984, solely by reason of the enactment of this section, and 42 USC 410.

(B) after December 31, 1983, acquires the number of quarters of coverage (within the meaning of section 213 of the Social Security Act) which is required for purposes of this subparagraph under paragraph (2), 42 USC 413.

then such individual shall be deemed to be a fully insured individual (as defined in section 214 of the Social Security Act) for all of the purposes of title II of such Act. 42 USC 414.

(2) The number of quarters of coverage which is required for purposes of subparagraph (B) of paragraph (1) shall be determined as follows:

In the case of an individual who on January 1, 1984, is—	The number of quarters of coverage so required shall be—
age 60 or over	6
age 59 or over but less than age 60	8
age 58 or over but less than age 59	12
age 57 or over but less than age 58	16
age 55 or over but less than age 57	20.

DURATION OF AGREEMENTS FOR COVERAGE OF STATE AND LOCAL EMPLOYEES

SEC. 103. (a) Section 218(g) of the Social Security Act is amended to read as follows: 42 USC 418.

"Duration of Agreement

"(g) No agreement under this section may be terminated, either in its entirety or with respect to any coverage group, on or after the date of the enactment of the Social Security Amendments of 1983.".

42 USC 418 note.
42 USC 418.

(b) The amendment made by subsection (a) shall apply to any agreement in effect under section 218 of the Social Security Act on the date of the enactment of this Act, without regard to whether a notice of termination is in effect on such date, and to any agreement or modification thereof which may become effective under such section 218 after that date.

PART B—COMPUTATION OF BENEFIT AMOUNTS

SHIFT OF COST-OF-LIVING ADJUSTMENTS TO CALENDAR YEAR BASIS

42 USC 415.

SEC. 111. (a)(1) Section 215(i)(2)(A)(ii) of the Social Security Act is amended by striking out "June" and inserting in lieu thereof "December".

(2) Section 215(i)(2)(A)(iii) of such Act is amended by striking out "May" and inserting in lieu thereof "November".

(3) Section 215(i)(2)(B) of such Act is amended by striking out "May" each place it appears and inserting in lieu thereof in each instance "November".

42 USC 403.

(4) Section 203(f)(8)(A) of such Act is amended by striking out "June" and inserting in lieu thereof "December".

42 USC 430.

(5) Section 230(a) of such Act is amended by striking out "June" and inserting in lieu thereof "December".

(6) Section 215(i)(2) of such Act as in effect in December 1978, and as applied in certain cases under the provisions of such Act as in effect after December 1978, is amended by striking out "June" in subparagraph (A)(ii) and inserting in lieu thereof "December", and by striking out "May" each place it appears in subparagraph (B) and inserting in lieu thereof in each instance "November".

42 USC 402.
95 Stat. 1660.

(7) Section 202(m) of such Act (as it applies in certain cases by reason of section 2 of Public Law 97-123) is amended by striking out "May" and inserting in lieu thereof "November".

42 USC 402 note.

(8) The amendments made by this subsection shall apply with respect to cost-of-living increases determined under section 215(i) of the Social Security Act for years after 1982.

(b)(1) Section 215(i)(1)(A) of the Social Security Act is amended by striking out "March 31" and inserting in lieu thereof "September 30", and by striking out "1974" and inserting in lieu thereof "1982".

(2) Section 215(i)(1)(A) of such Act as in effect in December 1978, and as applied in certain cases under the provisions of such Act as in effect after December 1978, is amended by striking out "March 31" and inserting in lieu thereof "September 30" and by striking out "1974" and inserting in lieu thereof "1982".

42 USC 415 note.

(3) The amendments made by this subsection shall apply with respect to cost-of-living increases determined under section 215(i) of the Social Security Act for years after 1983.

(c) Section 215(i)(4) of such Act is amended by inserting ", and as amended by section 111 (a)(6) and (b)(2) of the Social Security Amendments of 1983," after "as in effect in December 1978" the first place it appears.

42 USC 415 note.

(d) Notwithstanding any provision to the contrary in section 215(i) of the Social Security Act, the "base quarter" (as defined in paragraph (1)(A)(i) of such section) in the calendar year 1983 shall be a "cost-of-living computation quarter" within the meaning of paragraph (1)(B) of such section (and shall be deemed to have been determined by the Secretary of Health and Human Services to be a "cost-of-living computation quarter" under paragraph (2)(A) of such

section) for all of the purposes of such Act as amended by this section and by other provisions of this Act, without regard to the extent by which the Consumer Price Index has increased since the last prior cost-of-living computation quarter which was established under such paragraph (1)(B).

(e) Section 403(b) of the Omnibus Reconciliation Act of 1982 (Public Law 97-253) is amended to read as follows: 96 Stat. 802. 38 USC 3023 note.

"(b)(1) Except as provided in paragraph (2), the amendment made by subsection (a)(1) shall apply with respect to amounts payable for periods beginning after May 31, 1983.

"(2) In the cases of individuals to whom pension is payable under sections 521, 541, and 542 of title 38, United States Code, the amendment made by subsection (a)(1) shall take effect on the first day after May 31, 1983, that an increase is made in maximum annual rates of pension pursuant to section 3112 of title 38, United States Code.". Effective date.

COST-OF-LIVING INCREASES TO BE BASED ON EITHER WAGES OR PRICES (WHICHEVER IS LOWER) WHEN BALANCE IN OASDI TRUST FUNDS FALLS BELOW SPECIFIED LEVEL

SEC. 112. (a) Section 215(i)(1) of the Social Security Act is amended— 42 USC 415.

(1) by striking out "in which" in subparagraph (B) and all that follows down through the first semicolon in such subparagraph and inserting in lieu thereof "with respect to which the applicable increase percentage is 3 percent or more;";

(2) by striking out "and" at the end of subparagraph (B);

(3) by redesignating subparagraph (C) as subparagraph (H); and

(4) by inserting after subparagraph (B) the following new subparagraphs:

"(C) the term 'applicable increase percentage' means— Definitions.

"(i) with respect to a base quarter or cost-of-living computation quarter in any calendar year before 1984, or in any calendar year after 1983 and before 1989 for which the OASDI fund ratio is 15.0 percent or more, or in any calendar year after 1988 for which the OASDI fund ratio is 20.0 percent or more, the CPI increase percentage; and

"(ii) with respect to a base quarter or cost-of-living computation quarter in any calendar year after 1983 and before 1989 for which the OASDI fund ratio is less than 15.0 percent, or in any calendar year after 1988 for which the OASDI fund ratio is less than 20.0 percent, the CPI increase percentage or the wage increase percentage, whichever (with respect to that quarter) is the lower;

"(D) the term 'CPI increase percentage', with respect to a base quarter or cost-of-living computation quarter in any calendar year, means the percentage (rounded to the nearest one-tenth of 1 percent) by which the Consumer Price Index for that quarter (as prepared by the Department of Labor) exceeds such index for the most recent prior calendar quarter which was a base quarter under subparagraph (A)(ii) or, if later, the most recent cost-of-living computation quarter under subparagraph (B);

"(E) the term 'wage increase percentage', with respect to a base quarter or cost-of-living computation quarter in any calendar year, means the percentage (rounded to the nearest one-

tenth of 1 percent) by which the SSA average wage index for the year immediately preceding such calendar year exceeds such index for the year immediately preceding the most recent prior calendar year which included a base quarter under subparagraph (A)(ii) or, if later, which included a cost-of-living computation quarter;

"(F) the term 'OASDI fund ratio', with respect to any calendar year, means the ratio of—

"(i) the combined balance in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund as of the beginning of such year, including the taxes transferred under section 201(a) on the first day of such year and reduced by the outstanding amount of any loan (including interest thereon) theretofore made to either such Fund from the Federal Hospital Insurance Trust Fund under section 201(l), to

42 USC 401.

"(ii) the total amount which (as estimated by the Secretary) will be paid from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund during such calendar year for all purposes authorized by section 201 (other than payments of interest on, or repayments of, loans from the Federal Hospital Insurance Trust Fund under section 201(l)), but excluding any transfer payments between such trust funds and reducing the amount of any transfers to the Railroad Retirement Account by the amount of any transfers into either such trust fund from that Account;

"(G) the term 'SSA average wage index', with respect to any calendar year, means the average of the total wages reported to the Secretary of the Treasury or his delegate as determined for purposes of subsection (b)(3)(A)(ii); and".

42 USC 415.

(b) Section 215(i)(2)(A)(ii) of such Act is amended by striking out "by the same percentage" and all that follows down through the semicolon, in the sentence immediately following subdivision (III), and inserting in lieu thereof "by the applicable increase percentage;".

(c) Section 215(i) of such Act is further amended by adding at the end thereof the following new paragraph:

"(5)(A) If—

"(i) with respect to any calendar year the 'applicable increase percentage' was determined under clause (ii) of paragraph (1)(C) rather than under clause (i) of such paragraph, and the increase becoming effective under paragraph (2) in such year was accordingly determined on the basis of the wage increase percentage rather than the CPI increase percentage (or there was no such increase becoming effective under paragraph (2) in that year because the wage increase percentage was less than 3 percent), and

"(ii) for any subsequent calendar year in which an increase under paragraph (2) becomes effective the OASDI fund ratio is greater than 32.0 percent,

then each of the amounts described in subdivisions (I), (II), and (III) of paragraph (2)(A)(ii), as increased under paragraph (2) effective with the month of December in such subsequent calendar year, shall be further increased (effective with such month) by an additional percentage, which shall be determined under subparagraph (B) and shall apply as provided in subparagraph (C).

"(B) The applicable additional percentage by which the amounts described in subdivisions (I), (II), and (III) of paragraph (2)(A)(ii) are to be further increased under subparagraph (A) in the subsequent calendar year involved shall be the amount derived by—

"(i) subtracting (I) the compounded percentage benefit increases that were actually paid under paragraph (2) and this paragraph from (II) the compounded percentage benefit increases that would have been paid if all increases under paragraph (2) had been made on the basis of the CPI increase percentage,

"(ii) dividing the difference by the sum of the compounded percentage in subdivision (I) and 100 percent, and

"(iii) multiplying such quotient by 100 and rounding to the nearest one-tenth of 1 percent,

with the compounded increases referred to in subdivisions (I) and (II) being measured—

"(iv) in the case of amounts described in subdivision (I) of paragraph (2)(A)(ii), over the period beginning with the calendar year in which monthly benefits described in such subdivision were first increased on the basis of the wage increase percentage and ending with such subsequent calendar year, and

"(v) in the case of amounts described in subdivisions (II) and (III) of paragraph (2)(A)(ii), over the period beginning with the calendar year in which the individual whose primary insurance amount is increased under such subdivision (II) initially became eligible for an old-age or disability insurance benefit, or died before becoming so eligible, and ending with such subsequent calendar year;

except that if the Secretary determines in any case that the application (in accordance with subparagraph (C)) of the additional percentage as computed under the preceding provisions of this subparagraph would cause the OASDI fund ratio to fall below 32.0 percent in the calendar year immediately following such subsequent year, he shall reduce such applicable additional percentage to the extent necessary to ensure that the OASDI fund ratio will remain at or above 32.0 percent through the end of such following year.

"(C) Any applicable additional percentage increase in an amount described in subdivision (I), (II), or (III) of paragraph (2)(A)(ii), made under this paragraph in any calendar year, shall thereafter be treated for all the purposes of this Act as a part of the increase made in such amount under paragraph (2) for that year.".

(d)(1) Section 215(i)(2)(C) of such Act is amended by adding at the end thereof the following new clause: 42 USC 415.

"(iii) The Secretary shall determine and promulgate the OASDI fund ratio for the current calendar year and the SSA wage index for the preceding calendar year before November 1 of the current calendar year, based upon the most recent data then available, and shall include a statement of such fund ratio and wage index (and of the effect such ratio and the level of such index may have upon benefit increases under this subsection) in any notification made under clause (ii) and any determination published under subparagraph (D).".

(2) Section 215(i)(4) of such Act (as amended by section 111(c) of this Act) is further amended by striking out "section 111 (a)(6) and (b)(2)" and inserting in lieu thereof "sections 111(a)(6), 111(b)(2), and 112".

42 USC 415 note.

(e) The amendments made by the preceding provisions of this section shall apply with respect to monthly benefits under title II of the Social Security Act for months after December 1983.

42 USC 401.

42 USC 415 note.

(f) Notwithstanding anything to the contrary in section 215(i)(1)(F) of the Social Security Act (as added by subsection (a)(4) of this section), the combined balance in the Trust Funds which is to be used in determining the "OASDI fund ratio" with respect to the calendar year 1984 under such section shall be the estimated combined balance in such Funds as of the close of that year (rather than as of its beginning), including the taxes transferred under section 201(a) on the first day of the year following that year.

42 USC 401.

ELIMINATION OF WINDFALL BENEFITS FOR INDIVIDUALS RECEIVING PENSIONS FROM NONCOVERED EMPLOYMENT

42 USC 415.

SEC. 113. (a) Section 215(a) of the Social Security Act is amended by adding at the end thereof the following new paragraph:

"(7)(A) In the case of an individual whose primary insurance amount would be computed under paragraph (1) of this subsection, who—

"(i) attains age 62 after 1985 (except where he or she became entitled to a disability insurance benefit before 1986 and remained so entitled in any of the 12 months immediately preceding his or her attainment of age 62), or

"(ii) would attain age 62 after 1985 and becomes eligible for a disability insurance benefit after 1985,

and who first becomes eligible after 1985 for a monthly periodic payment (including a payment determined under subparagraph (C), but excluding a payment under the Railroad Retirement Act of 1974 or 1937) which is based in whole or in part upon his or her earnings for service which did not constitute 'employment' as defined in section 210 for purposes of this title (hereafter in this paragraph and in subsection (d)(5) referred to as 'noncovered service'), the primary insurance amount of that individual during his or her concurrent entitlement to such monthly periodic payment and to old-age or disability insurance benefits shall be computed or recomputed under subparagraph (B) with respect to the initial month in which the individual becomes eligible for such benefits.

45 USC 231t.

42 USC 410.

"(B)(i) If paragraph (1) of this subsection would apply to such an individual (except for subparagraph (A) of this paragraph), there shall first be computed an amount equal to the individual's primary insurance amount under paragraph (1) of this subsection, except that for purposes of such computation the percentage of the individual's average indexed monthly earnings established by subparagraph (A)(i) of paragraph (1) shall be the percent specified in clause (ii). There shall then be computed (without regard to this paragraph) a second amount, which shall be equal to the individual's primary insurance amount under paragraph (1) of this subsection, except that such second amount shall be reduced by an amount equal to one-half of the portion of the monthly periodic payment which is attributable to noncovered service performed after 1956 (with such attribution being based on the proportionate number of years of such noncovered service) and to which the individual is entitled (or is deemed to be entitled) for the initial month of his or her eligibility for old-age or disability insurance benefits. The individual's primary insurance amount shall be the larger of the two amounts computed under this subparagraph (before the application of subsection (i))

and shall be deemed to be computed under paragraph (1) of this subsection for the purpose of applying other provisions of this title.

"(ii) For purposes of clause (i), the percent specified in this clause is—

"(I) 80.0 percent with respect to individuals who initially become eligible for old-age or disability insurance benefits in 1986;

"(II) 70.0 percent with respect to individuals who so become eligible in 1987;

"(III) 60.0 percent with respect to individuals who so become eligible in 1988;

"(IV) 50.0 percent with respect to individuals who so become eligible in 1989; and

"(V) 40.0 percent with respect to individuals who so become eligible in 1990 or thereafter.

"(C)(i) Any periodic payment which otherwise meets the requirements of subparagraph (A), but which is paid on other than a monthly basis, shall be allocated on a basis equivalent to a monthly payment (as determined by the Secretary), and such equivalent monthly payment shall constitute a monthly periodic payment for purposes of this paragraph.

"(ii) In the case of an individual who has elected to receive a periodic payment that has been reduced so as to provide a survivors benefit to any other individual, the payment shall be deemed to be increased (for purposes of any computation under this paragraph or subsection (d)(5)) by the amount of such reduction.

"(iii) If an individual to whom subparagraph (A) applies is eligible for a periodic payment beginning with a month that is subsequent to the month in which he or she becomes eligible for old-age or disability insurance benefits, the amount of that payment (for purposes of subparagraph (B)) shall be deemed to be the amount to which he or she is, or is deemed to be, entitled (subject to clauses (i), (ii), and (iv) of this subparagraph) in such subsequent month.

"(iv) For purposes of this paragraph, the term 'periodic payment' includes a payment payable in a lump sum if it is a commutation of, or a substitute for, periodic payments. "Periodic payment."

"(D) This paragraph shall not apply in the case of an individual who has 30 years or more of coverage (as defined in paragraph (1)(C)(ii)). In the case of an individual who has more than 25 years of coverage but less than 30 years of coverage (as so defined), the percent specified in the applicable subdivision of subparagraph (B)(ii) shall (if such percent is smaller than the percent specified in whichever of the following clauses applies) be deemed to be—

"(i) 80 percent, in the case of an individual who has 29 of such years of coverage;

"(ii) 70 percent, in the case of an individual who has 28 of such years;

"(iii) 60 percent, in the case of an individual who has 27 of such years; and

"(iv) 50 percent, in the case of an individual who has 26 of such years.

"(E) This paragraph shall not apply in the case of an individual who on January 1, 1984— Limitations.

"(i) is an employee performing service to which social security coverage is extended on that date solely by reason of the amendments made by section 101 of the Social Security Amendments of 1983; or

Ante, p. 67.

"(ii) is an employee of a nonprofit organization which (on December 31, 1983) did not have in effect a waiver certificate under section 3121(k) of the Internal Revenue Code of 1954 and to the employees of which social security coverage is extended on that date solely by reason of the amendments made by section 102 of that Act, unless social security coverage had previously extended to service performed by such individual as an employee of that organization under a waiver certificate which was subsequently (prior to December 31, 1983) terminated.".

Ante, p. 71.

42 USC 415.

(b) Section 215(d) of such Act is amended by adding at the end thereof the following new paragraph:

"(5) In the case of an individual whose primary insurance amount is not computed under paragraph (1) of subsection (a) by reason of paragraph (4)(B)(ii) of that subsection, who—

"(A) attains age 62 after 1985 (except where he or she became entitled to a disability insurance benefit before 1986, and remained so entitled in any of the 12 months immediately preceding his or her attainment of age 62), or

"(B) would attain age 62 after 1985 and becomes eligible for a disability insurance benefit after 1985,

and who first becomes eligible after 1985 for a monthly periodic payment (including a payment determined under subsection (a)(7)(C), but excluding a payment under the Railroad Retirement Act of 1974 or 1937) which is based (in whole or in part) upon his or her earnings in noncovered service, the primary insurance amount of such individual during his or her concurrent entitlement to such monthly periodic payment and to old-age or disability insurance benefits shall be the primary insurance amount computed or recomputed under this subsection (without regard to this paragraph and before the application of subsection (i)) reduced by an amount equal to the smaller of—

45 USC 231t.

"(i) one-half of the primary insurance amount (computed without regard to this paragraph and before the application of subsection (i)), or

"(ii) one-half of the portion of the monthly periodic payment (or payment determined under subsection (a)(7)(C)) which is attributable to noncovered service performed after 1956 (with such attribution being based on the proportionate number of years of such noncovered service) and to which that individual is entitled (or is deemed to be entitled) for the initial month of his or her eligibility for old-age or disability insurance benefits.

This paragraph shall not apply in the case of any individual to whom subsection (a)(7) would not apply by reason of subparagraph (E) or the first sentence of subparagraph (D) thereof.".

42 USC 415.

(c) Section 215(f) of such Act is amended by adding at the end thereof the following new paragraph:

"(9)(A) In the case of an individual who becomes entitled to a periodic payment determined under subsection (a)(7)(A) (including a payment determined under subsection (a)(7)(C)) in a month subsequent to the first month in which he or she becomes entitled to an old-age or disability insurance benefit, and whose primary insurance amount has been computed without regard to either such subsection or subsection (d)(5), such individual's primary insurance amount shall be recomputed (notwithstanding paragraph (4) of this subsection), in accordance with either such subsection or subsection (d)(5),

as may be applicable, effective with the first month of his or her concurrent entitlement to such benefit and such periodic payment.

"(B) If an individual's primary insurance amount has been computed under subsection (a)(7) or (d)(5), and it becomes necessary to recompute that primary insurance amount under this subsection—

"(i) so as to increase the monthly benefit amount payable with respect to such primary insurance amount (except in the case of the individual's death), such increase shall be determined as though such primary insurance amount had initially been computed without regard to subsection (a)(7) or (d)(5), or

"(ii) by reason of the individual's death, such primary insurance amount shall be recomputed without regard to (and as though it had never been computed with regard to) subsection (a)(7) or (d)(5).".

(d) Sections 202(e)(2) and 202(f)(3) of such Act are each amended by striking out "section 215(f) (5) or (6)" wherever it appears and inserting in lieu thereof "section 215(f)(5), 215(f)(6), or 215(f)(9)(B)". 42 USC 402.

INCREASE IN OLD-AGE INSURANCE BENEFIT AMOUNTS ON ACCOUNT OF DELAYED RETIREMENT

SEC. 114. (a) Section 202(w)(1)(A) of the Social Security Act is amended to read as follows: 42 USC 402.

"(A) the applicable percentage (as determined under paragraph (6)) of such amount, multiplied by".

(b) Section 202(w) of such Act is further amended by adding at the end thereof the following new paragraph:

"(6) For purposes of paragraph (1)(A), the 'applicable percentage' is—

"(A) 1/12 of 1 percent in the case of an individual who first becomes eligible for an old-age insurance benefit in any calendar year before 1979;

"(B) 1/4 of 1 percent in the case of an individual who first becomes eligible for an old-age insurance benefit in any calendar year after 1978 and before 1987;

"(C) in the case of an individual who first becomes eligible for an old-age insurance benefit in a calendar year after 1986 and before 2005, a percentage equal to the applicable percentage in effect under this paragraph for persons who first became eligible for an old-age insurance benefit in the preceding calendar year (as increased pursuant to this subparagraph), plus 1/24 of 1 percent if the calendar year in which that particular individual first becomes eligible for such benefit is not evenly divisible by 2; and

"(D) 2/3 of 1 percent in the case of an individual who first becomes eligible for an old-age insurance benefit in a calendar year after 2004.".

(c)(1) Paragraphs (2) (A) and (3) of section 202(w) of such Act are each amended by striking out "age 72" and inserting in lieu thereof "age 70".

(2) The amendments made by paragraph (1) shall apply with respect to increment months in calendar years after 1983. Effective date. 42 USC 402 note.

PART C—REVENUE PROVISIONS

SEC. 121. TAXATION OF SOCIAL SECURITY AND TIER 1 RAILROAD RETIREMENT BENEFITS.

(a) GENERAL RULE.—Part II of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to amounts specifically included in gross income) is amended by redesignating section 86 as section 87 and by inserting after section 85 the following new section:

26 USC 86.

"SEC. 86. SOCIAL SECURITY AND TIER 1 RAILROAD RETIREMENT BENEFITS.

"(a) IN GENERAL.—Gross income for the taxable year of any taxpayer described in subsection (b) includes social security benefits in an amount equal to the lesser of—

"(1) one-half of the social security benefits received during the taxable year, or

"(2) one-half of the excess described in subsection (b)(1).

"(b) TAXPAYERS TO WHOM SUBSECTION (a) APPLIES.—

"(1) IN GENERAL.—A taxpayer is described in this subsection if—

"(A) the sum of—

"(i) the modified adjusted gross income of the taxpayer for the taxable year, plus

"(ii) one-half of the social security benefits received during the taxable year, exceeds

"(B) the base amount.

"(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term 'modified adjusted gross income' means adusted gross income—

"(A) determined without regard to this section and sections 221, 911, 931, and 933, and

26 USC 221, 911, 931, 933.

"(B) increased by the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax.

"(c) BASE AMOUNT.—For purposes of this section, the term 'base amount' means—

"(1) except as otherwise provided in this subsection, $25,000,

"(2) $32,000, in the case of a joint return, and

"(3) zero, in the case of a taxpayer who—

"(A) is married at the close of the taxable year (within the meaning of section 143) but does not file a joint return for such year, and

26 USC 143.

"(B) does not live apart from his spouse at all times during the taxable year.

"(d) SOCIAL SECURITY BENEFIT.—

"(1) IN GENERAL.—For purposes of this section, the term 'social security benefit' means any amount received by the taxpayer by reason of entitlement to—

"(A) a monthly benefit under title II of the Social Security Act, or

42 USC 401.

"(B) a tier 1 railroad retirement benefit.

For purposes of the preceding sentence, the amount received by any taxpayer shall be determined as if the Social Security Act did not contain section 203(i) thereof.

42 USC 403.

"(2) ADJUSTMENT FOR REPAYMENTS DURING YEAR.—

"(A) IN GENERAL.—For purposes of this section, the amount of social security benefits received during any taxable year shall be reduced by any repayment made by the taxpayer during the taxable year of a social security benefit previously received by the taxpayer (whether or not such benefit was received during the taxable year).

"(B) DENIAL OF DEDUCTION.—If (but for this subparagraph) any portion of the repayments referred to in subparagraph (A) would have been allowable as a deduction for the taxable year under section 165, such portion shall be allowable as a deduction only to the extent it exceeds the social security benefits received by the taxpayer during the taxable year (and not repaid during such taxable year).

"(3) WORKMEN'S COMPENSATION BENEFITS SUBSTITUTED FOR SOCIAL SECURITY BENEFITS.—For purposes of this section, if, by reason of section 224 of the Social Security Act (or by reason of section 3(a)(1) of the Railroad Retirement Act of 1974), any social security benefit is reduced by reason of the receipt of a benefit under a workmen's compensation act, the term 'social security benefit' includes that portion of such benefit received under the workmen's compensation act which equals such reduction.

42 USC 424a.
45 USC 231b.

"(4) TIER 1 RAILROAD RETIREMENT BENEFIT.—For purposes of paragraph (1), the term 'tier 1 railroad retirement benefit' means a monthly benefit under section 3(a), 4(a), or 4(f) of the Railroad Retirement Act of 1974.

45 USC 231b, 231c.

"(e) LIMITATION ON AMOUNT INCLUDED WHERE TAXPAYER RECEIVES LUMP-SUM PAYMENT.—

"(1) LIMITATION.—If—

"(A) any portion of a lump-sum payment of social security benefits received during the taxable year is attributable to prior taxable years, and

"(B) the taxpayer makes an election under this subsection for the taxable year,

then the amount included in gross income under this section for the taxable year by reason of the receipt of such portion shall not exceed the sum of the increases in gross income under this chapter for prior taxable years which would result solely from taking into account such portion in the taxable years to which it is attributable.

"(2) SPECIAL RULES.—

"(A) YEAR TO WHICH BENEFIT ATTRIBUTABLE.—For purposes of this subsection, a social security benefit is attributable to a taxable year if the generally applicable payment date for such benefit occurred during such taxable year.

"(B) ELECTION.—An election under this subsection shall be made at such time and in such manner as the Secretary shall by regulations prescribe. Such election, once made, may be revoked only with the consent of the Secretary.

"(f) TREATMENT AS PENSION OR ANNUITY FOR CERTAIN PURPOSES.—For purposes of—

"(1) section 43(c)(2) (defining earned income), 26 USC 43.

"(2) section 219(f)(1) (defining compensation), 26 USC 219.

"(3) section 221(b)(2) (defining earned income), and 26 USC 221.

"(4) section 911(b)(1) (defining foreign earned income), 26 USC 911.

any social security benefit shall be treated as an amount received as a pension or annuity."

11-139 O - 83 - 2 (21)

(b) INFORMATION REPORTING.—Subpart B of part III of subchapter A of chapter 61 of such Code (relating to information concerning transactions with other persons) is amended by adding at the end thereof the following new section:

26 USC 6050F.

"SEC. 6050F. RETURNS RELATING TO SOCIAL SECURITY BENEFITS.

"(a) REQUIREMENT OF REPORTING.—The appropriate Federal official shall make a return, according to the forms and regulations prescribed by the Secretary, setting forth—

"(1) the—

"(A) aggregate amount of social security benefits paid with respect to any individual during any calendar year,

"(B) aggregate amount of social security benefits repaid by such individual during such calendar year, and

"(C) aggregate reductions under section 224 of the Social Security Act (or under section 3(a)(1) of the Railroad Retirement Act of 1974) in benefits which would otherwise have been paid to such individual during the calendar year on account of amounts received under a workmen's compensation act, and

42 USC 424a.
45 USC 231b.

"(2) the name and address of such individual.

"(b) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—Every person making a return under subsection (a) shall furnish to each individual whose name is set forth in such return a written statement showing—

"(1) the name of the agency making the payments, and

"(2) the aggregate amount of payments, of repayments, and of reductions, with respect to the individual as shown on such return.

The written statement required under the preceding sentence shall be furnished to the individual on or before January 31 of the year following the calendar year for which the return under subsection (a) was made.

"(c) DEFINITIONS.—For purposes of this section—

"(1) APPROPRIATE FEDERAL OFFICIAL.—The term 'appropriate Federal official' means—

"(A) the Secretary of Health and Human Services in the case of social security benefits described in section 86(d)(1)(A), and

"(B) the Railroad Retirement Board in the case of social security benefits described in section 86(d)(1)(B).

Ante, p. 80.

"(2) SOCIAL SECURITY BENEFIT.—The term 'social security benefit' has the meaning given to such term by section 86(d)(1)."

(c) TREATMENT OF NONRESIDENT ALIENS.—

(1) AMENDMENT OF SECTION 871(a).—Subsection (a) of section 871 of such Code (relating to tax on income not connected with United States business) is amended by adding at the end thereof the following new paragraph:

26 USC 871.

"(3) TAXATION OF SOCIAL SECURITY BENEFITS.—For purposes of this section and section 1441—

"(A) one-half of any social security benefit (as defined in section 86(d)) shall be included in gross income, and

"(B) section 86 shall not apply."

26 USC 1441.

(2) AMENDMENT OF SECTION 1441.—Section 1441 of such Code (relating to withholding of tax on nonresident aliens) is amended by adding at the end thereof the following new subsection:

"(g) CROSS REFERENCE.—

"For provision treating one-half of social security benefits as subject to withholding under this section, see section 871(a)(3)."

(3) DISCLOSURE OF INFORMATION TO SOCIAL SECURITY ADMINISTRATION OR RAILROAD RETIREMENT BOARD.—

(A) IN GENERAL.—Subsection (h) of section 6103 of such Code (relating to disclosure to certain Federal officers and employees for purposes of tax administration, etc.) is amended by adding at the end thereof the following new paragraph: 26 USC 6103.

"(6) WITHHOLDING OF TAX FROM SOCIAL SECURITY BENEFITS.—Upon written request of the payor agency, the Secretary may disclose available return information from the master files of the Internal Revenue Service with respect to the address and status of an individual as a nonresident alien or as a citizen or resident of the United States to the Social Security Administration or the Railroad Retirement Board (whichever is appropriate) for purposes of carrying out its responsibilities for withholding tax under section 1441 from social security benefits (as defined in section 86(d))." 26 USC 1441. *Ante*, p. 80.

(B) CONFORMING AMENDMENT.—Paragraph (4) of section 6103(p) of such Code (relating to safeguards) is amended by inserting "(h)(6)," after "(h)(2)," in the material preceding subparagraph (A) and in subparagraph (F)(ii), thereof. 26 USC 6103.

(C) DISCLOSURE BY FINANCIAL INSTITUTIONS.—Section 1113 of the Right to Financial Privacy Act of 1978 (92 Stat. 3706; 12 U.S.C. 3413) is amended by adding at the end thereof the following new subsection:

"(k)(1) Nothing in this title shall apply to the disclosure by the financial institution of the name and address of any customer to the Department of the Treasury, the Social Security Administration, or the Railroad Retirement Board, where the disclosure of such information is necessary to, and such information is used solely for the purpose of, the proper administration of section 1441 of the Internal Revenue Code of 1954, title II of the Social Security Act, or the Railroad Retirement Act of 1974. Information disclosure. 26 USC 1441; 42 USC 401; 45 USC 231t.

"(2) Notwithstanding any other provision of law, any request authorized by paragraph (1) (and the information contained therein) may be used by the financial institution or its agents solely for the purpose of providing the customer's name and address to the Department of the Treasury, the Social Security Administration, or the Railroad Retirement Board and shall be barred from redisclosure by the financial institution or its agents."

(d) SOCIAL SECURITY BENEFITS TREATED AS UNITED STATES SOURCED.—Subsection (a) of section 861 of such Code (relating to income from sources within the United States) is amended by adding at the end thereof the following new paragraph: 26 USC 861.

"(8) SOCIAL SECURITY BENEFITS.—Any social security benefit (as defined in section 86(d))." *Ante*, p. 80.

(e) TRANSFERS TO TRUST FUNDS.— 42 USC 401 note.

(1) IN GENERAL.—There are hereby appropriated to each payor fund amounts equivalent to the aggregate increase in tax liabilities under chapter 1 of the Internal Revenue Code of 1954 which is attributable to the application of sections 86 and 871(a)(3) of such Code (as added by this section) to payments from such payor fund. 26 USC 1 *et seq.* *Ante*, p. 80.

(2) TRANSFERS.—The amounts appropriated by paragraph (1) to any payor fund shall be transferred from time to time (but not less frequently than quarterly) from the general fund of the Treasury on the basis of estimates made by the Secretary of the Treasury of the amounts referred to in such paragraph. Any such quarterly payment shall be made on the first day of such quarter and shall take into account social security benefits estimated to be received during such quarter. Proper adjustments shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.

(3) DEFINITIONS.—For purposes of this subsection—

(A) PAYOR FUND.—The term "payor fund" means any trust fund or account from which payments of social security benefits are made.

(B) SOCIAL SECURITY BENEFITS.—The term "social security benefits" has the meaning given such term by section 86(d)(1) of the Internal Revenue Code of 1954.

Ante, p. 80.

(4) REPORTS.—The Secretary of the Treasury shall submit annual reports to the Congress and to the Secretary of Health and Human Services and the Railroad Retirement Board on—

(A) the transfers made under this subsection during the year, and the methodology used in determining the amount of such transfers and the funds or account to which made, and

(B) the anticipated operation of this subsection during the next 5 years.

(f) TECHNICAL AMENDMENTS.—

26 USC 85.

(1) Subsection (a) of section 85 of such Code is amended by striking out "this section," and inserting in lieu thereof "this section, section 86,".

96 Stat. 2375.
26 USC 128.

(2) Subparagraph (B) of section 128(c)(3) of such Code (as in effect for taxable years beginning after December 31, 1984) is amended by striking out "85," and inserting in lieu thereof "85, 86,".

(3) The table of sections for part II of subchapter B of chapter 1 of such Code is amended by striking out the item relating to section 86 and inserting in lieu thereof the following:

"Sec. 86. Social security and tier 1 railroad retirement benefits.
"Sec. 87. Alcohol fuel credit."

(4) The table of sections for subpart B of part III of subchapter A of chapter 61 of such Code is amended by adding at the end thereof the following new item:

"Sec. 6050F. Returns relating to social security benefits."

26 USC 86 note.

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to benefits received after December 31, 1983, in taxable years ending after such date.

(2) TREATMENT OF CERTAIN LUMP-SUM PAYMENTS RECEIVED AFTER DECEMBER 31, 1983.—The amendments made by this section shall not apply to any portion of a lump-sum payment of social security benefits (as defined in section 86(d) of the Internal Revenue Code of 1954) received after December 31, 1983, if the generally applicable payment date for such portion was before January 1, 1984.

Ante, p. 80.

SEC. 122. CREDIT FOR THE ELDERLY AND THE PERMANENTLY AND TOTALLY DISABLED.

(a) GENERAL RULE.—Section 37 of the Internal Revenue Code of 1954 (relating to credit for the elderly) is amended to read as follows: 26 USC 37.

"SEC. 37. CREDIT FOR THE ELDERLY AND THE PERMANENTLY AND TOTALLY DISABLED.

"(a) GENERAL RULE.—In the case of a qualified individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 15 percent of such individual's section 37 amount for such taxable year.

"(b) QUALIFIED INDIVIDUAL.—For purposes of this section, the term 'qualified individual' means any individual—

"(1) who has attained age 65 before the close of the taxable year, or

"(2) who retired on disability before the close of the taxable year and who, when he retired, was permanently and totally disabled.

"(c) SECTION 37 AMOUNT.—For purposes of subsection (a)—

"(1) IN GENERAL.—An individual's section 37 amount for the taxable year shall be the applicable initial amount determined under paragraph (2), reduced as provided in paragraph (3) and in subsection (d).

"(2) INITIAL AMOUNT—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the initial amount shall be—

"(i) $5,000 in the case of a single individual, or a joint return where only one spouse is a qualified individual,

"(ii) $7,500 in the case of a joint return where both spouses are qualified individuals, or

"(iii) $3,750 in the case of a married individual filing a separate return.

"(B) LIMITATION IN CASE OF INDIVIDUALS WHO HAVE NOT ATTAINED AGE 65.—

"(i) IN GENERAL.—In the case of a qualified individual who has not attained age 65 before the close of the taxable year, except as provided in clause (ii), the initial amount shall not exceed the disability income for the taxable year.

"(ii) SPECIAL RULES IN CASE OF JOINT RETURN —In the case of a joint return where both spouses are qualified individuals and at least one spouse has not attained age 65 before the close of the taxable year—

"(I) if both spouses have not attained age 65 before the close of the taxable year, the initial amount shall not exceed the sum of such spouses' disability income, or

"(II) if one spouse has attained age 65 before the close of the taxable year, the initial amount shall not exceed the sum of $5,000 plus the disability income for the taxable year of the spouse who has not attained age 65 before the close of the taxable year.

"(iii) DISABILITY INCOME.—For purposes of this subparagraph, the term 'disability income' means the aggregate amount includable in the gross income of the individual for the taxable year under section 72 or 26 USC 72.

26 USC 105.

105(a) to the extent such amount constitutes wages (or payments in lieu of wages) for the period during which the individual is absent from work on account of permanent and total disability.

"(3) REDUCTION.—

"(A) IN GENERAL.—The reduction under this paragraph is an amount equal to the sum of the amounts received by the individual (or, in the case of a joint return, by either spouse) as a pension or annuity or as a disability benefit—

"(i) which is excluded from gross income and payable under—

42 USC 401.

"(I) title II of the Social Security Act,

45 USC 231t.

"(II) the Railroad Retirement Act of 1974, or

"(III) a law administered by the Veterans' Administration, or

"(ii) which is excluded from gross income under any provision of law not contained in this title.

No reduction shall be made under clause (i)(III) for any amount described in section 104(a)(4).

26 USC 104.

"(B) TREATMENT OF CERTAIN WORKMEN'S COMPENSATION BENEFITS.—For purposes of subparagraph (A), any amount treated as a social security benefit under section 86(d)(3) shall be treated as a disability benefit received under title II of the Social Security Act.

"(d) LIMITATIONS.—

"(1) ADJUSTED GROSS INCOME LIMITATION.—If the adjusted gross income of the taxpayer exceeds—

"(A) $7,500 in the case of a single individual,

"(B) $10,000 in the case of a joint return, or

"(C) $5,000 in the case of a married individual filing a separate return,

the section 37 amount shall be reduced by one-half of the excess of the adjusted gross income over $7,500, $10,000, or $5,000, as the case may be.

"(2) LIMITATION BASED ON AMOUNT OF TAX.—The amount of the credit allowed by this section for the taxable year shall not exceed the amount of the tax imposed by this chapter for such taxable year.

"(e) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) MARRIED COUPLE MUST FILE JOINT RETURN.—Except in the case of a husband and wife who live apart at all times during the taxable year, if the taxpayer is married at the close of the taxable year, the credit provided by this section shall be allowed only if the taxpayer and his spouse file a joint return for the taxable year.

"(2) MARITAL STATUS.—Marital status shall be determined under section 143.

26 USC 143.

"(3) PERMANENT AND TOTAL DISABILITY DEFINED.—An individual is permanently and totally disabled if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. An individual shall not be considered to be permanently and totally disabled unless he furnishes proof of the

existence thereof in such form and manner, and at such times, as the Secretary may require.

"(f) NONRESIDENT ALIEN INELIGIBLE FOR CREDIT.—No credit shall be allowed under this section to any nonresident alien."

(b) REPEAL OF EXCLUSION FOR CERTAIN DISABILITY PAYMENTS.—Subsection (d) of section 105 of such Code (relating to certain disability payments) is hereby repealed. 26 USC 105.

(c) CONFORMING AMENDMENTS.—

(1) Sections 41(b)(2), 44A(b)(2), 46(a)(4)(B), 53(a)(2), and 904(g) of such Code are each amended by striking out "relating to credit for the elderly" and inserting in lieu thereof "relating to credit for the elderly and the permanently and totally disabled". 26 USC 41, 44A, 46, 53, 904.

(2) Subsection (a) of section 85 of such Code is amended by striking out ", section 105(d),". 26 USC 85.

(3) Subparagraph (B) of section 128(c)(3) of such Code (as in effect for taxable years beginning after December 31, 1984) is amended by striking out "105(d),". 96 Stat. 2375. 26 USC 128.

(4) Paragraph (3) of section 403(b) of such Code is amended by striking out "sections 105(d) and 911" and inserting in lieu thereof "section 911". 26 USC 403.

(5) Clause (i) of section 415(c)(3)(C) of such Code is amended by striking out "section 105(d)(4)" and inserting in lieu thereof "section 37(e)(3)". 96 Stat. 532. 26 USC 415.

(6) Paragraph (6) of section 7871(a) of such Code is amended by striking out subparagraph (A), and by redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively. 96 Stat. 2608. 26 USC 7871.

(7) The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by striking out the item relating to section 37 and inserting in lieu thereof the following:

"Sec. 37. Credit for the elderly and the permanently and totally disabled."

(d) EFFECTIVE DATE.— 26 USC 37 note.

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1983.

(2) TRANSITIONAL RULE.—If an individual's annuity starting date was deferred under section 105(d)(6) of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of this section), such deferral shall end on the first day of such individual's first taxable year beginning after December 31, 1983. *Supra.*

SEC. 123. ACCELERATION OF INCREASES IN FICA TAXES; 1984 EMPLOYEE TAX CREDIT.

(a) ACCELERATION OF INCREASES IN FICA TAXES.—

(1) TAX ON EMPLOYEES.—Subsection (a) of section 3101 of the Internal Revenue Code of 1954 (relating to rate of tax on employees for old-age, survivors, and disability insurance) is amended by striking out paragraphs (1) through (7) and inserting in lieu thereof the following: 26 USC 3101.

"In cases of wages received during:	The rate shall be:
1984, 1985, 1986, or 1987	5.7 percent
1988 or 1989	6.06 percent
1990 or thereafter	6.2 percent."

26 USC 3111.

(2) EMPLOYER TAX.—Subsection (a) of section 3111 of such Code is amended by striking out paragraphs (1) through (7) and inserting in lieu thereof the following:

"In cases of wages paid during:	The rate shall be:
1984, 1985, 1986, or 1987	5.7 percent
1988 or 1989	6.06 percent
1990 or thereafter	6.2 percent."

26 USC 3101 note.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to remuneration paid after December 31, 1983.

(b) 1984 EMPLOYEE TAX CREDIT.—

(1) IN GENERAL.—Chapter 25 of such Code is amended by adding at the end thereof the following new section:

26 USC 3510.

"SEC. 3510. CREDIT FOR INCREASED SOCIAL SECURITY EMPLOYEE TAXES AND RAILROAD RETIREMENT TIER 1 EMPLOYEE TAXES IMPOSED DURING 1984.

"(a) GENERAL RULE.—There shall be allowed as a credit against the tax imposed by section 3101(a) on wages received during 1984 an amount equal to 3/10 of 1 percent of the wages so received.

"(b) TIME CREDIT ALLOWED.—The credit under subsection (a) shall be taken into account in determining the amount of the tax deducted under section 3102(a).

"(c) WAGES.—For purposes of this section, the term 'wages' has the meaning given to such term by section 3121(a).

"(d) APPLICATION TO AGREEMENTS UNDER SECTION 218 OF THE SOCIAL SECURITY ACT.—For purposes of determining amounts equivalent to the tax imposed by section 3101(a) with respect to remuneration which—

42 USC 418.

"(1) is covered by an agreement under section 218 of the Social Security Act, and

"(2) is paid during 1984,

the credit allowed by subsection (a) shall be taken into account. A similar rule shall also apply in the case of an agreement under section 3121(l).

"(e) CREDIT AGAINST RAILROAD RETIREMENT EMPLOYEE AND EMPLOYEE REPRESENTATIVE TAXES.—

"(1) IN GENERAL.—There shall be allowed as a credit against the taxes imposed by sections 3201(a) and 3211(a) on compensation paid during 1984 and subject to such taxes at rates determined by reference to section 3101 an amount equal to 3/10 of 1 percent of such compensation.

"(2) TIME CREDIT ALLOWED.—The credit under paragraph (1) shall be taken into account in determining the amount of the tax deducted under section 3202(a) (or the amount of the tax under section 3211(a)).

"(3) COMPENSATION.—For purposes of this subsection, the term 'compensation' has the meaning given to such term by section 3231(e).

"(f) COORDINATION WITH SECTION 6413(c).—For purposes of subsection (c) of section 6413, in determining the amount of the tax imposed by section 3101 or 3201, any credit allowed by this section shall be taken into account."

(2) CLERICAL AMENDMENT.—The table of sections for chapter 25 of such Code is amended by adding at the end thereof the following new item:

"Sec. 3510. Credit for increased social security employee taxes and railroad retirement tier 1 employee taxes imposed during 1984."

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to remuneration paid during 1984. 26 USC 3510 note.

(4) DEPOSITS IN SOCIAL SECURITY TRUST FUNDS.—For purposes of subsection (h) of section 218 of the Social Security Act (relating to deposits in social security trust funds of amounts received under section 218 agreements), amounts allowed as a credit pursuant to subsection (d) of section 3510 of the Internal Revenue Code of 1954 (relating to credit for remuneration paid during 1984 which is covered under an agreement under section 218 of the Social Security Act) shall be treated as amounts received under such an agreement. 42 USC 418 note. 42 USC 418. *Ante*, p. 88.

(5) DEPOSITS IN RAILROAD RETIREMENT ACCOUNT.—For purposes of subsection (a) of section 15 of the Railroad Retirement Act of 1974, amounts allowed as a credit under subsection (e) of section 3510 of the Internal Revenue Code of 1954 shall be treated as amounts covered into the Treasury under subsection (a) of section 3201 of such Code. 45 USC 231n note. 45 USC 231n.

SEC. 124. TAXES ON SELF-EMPLOYMENT INCOME; CREDIT AGAINST SUCH TAXES FOR YEARS BEFORE 1990; DEDUCTION OF SUCH TAXES FOR YEARS AFTER 1989.

(a) INCREASE IN RATES.—Subsections (a) and (b) of section 1401 of the Internal Revenue Code of 1954 (relating to rates of tax on self-employment income) are amended to read as follows: 26 USC 1401.

"(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—In addition to other taxes, there shall be imposed for each taxable year, on the self-employment income of every individual, a tax equal to the following percent of the amount of the self-employment income for such taxable year:

"In the case of a taxable year Beginning after:	And before:	Percent:
December 31, 1983	January 1, 1988	11.40
December 31, 1987	January 1, 1990	12.12
December 31, 1989		12.40

"(b) HOSPITAL INSURANCE.—In addition to the tax imposed by the preceding subsection, there shall be imposed for each taxable year, on the self-employment income of every individual, a tax equal to the following percent of the amount of the self-employment income for such taxable year:

"In the case of a taxable year Beginning after:	And before:	Percent:
December 31, 1983	January 1, 1985	2.60
December 31, 1984	January 1, 1986	2.70
December 31, 1985		2.90."

(b) CREDIT FOR YEARS BEFORE 1990 AGAINST SELF-EMPLOYMENT TAXES.—Section 1401 of such Code is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) CREDIT AGAINST TAXES IMPOSED BY THIS SECTION.—

"(1) IN GENERAL.—In the case of a taxable year beginning before 1990, there shall be allowed as a credit against the taxes imposed by this section for any taxable year an amount equal to

the applicable percentage of the self-employment income of the individual for such taxable year.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be determined in accordance with the following table:

"In the case of taxable years beginning in:	The applicable percentage is:
1984	2.7
1985	2.3
1986, 1987, 1988, or 1989	2.0."

(c) ALLOWANCE OF DEDUCTION FOR YEARS AFTER 1989 FOR ONE-HALF OF TAXES ON SELF-EMPLOYMENT INCOME.—

26 USC 164.

(1) IN GENERAL.—Section 164 of such Code (relating to deduction for taxes) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) DEDUCTION FOR ONE-HALF OF SELF-EMPLOYMENT TAXES.—

"(1) IN GENERAL.—In the case of an individual, in addition to the taxes described in subsection (a), there shall be allowed as a deduction for the taxable year an amount equal to one-half of the taxes imposed by section 1401 for such taxable year.

"(2) DEDUCTION TREATED AS ATTRIBUTABLE TO TRADE OR BUSINESS.—For purposes of this chapter, the deduction allowed by paragraph (1) shall be treated as attributable to a trade or business carried on by the taxpayer which does not consist of the performance of services by the taxpayer as an employee."

26 USC 1402.

(2) ALTERNATIVE DEDUCTION ALLOWED IN COMPUTING SELF-EMPLOYMENT TAXES.—Subsection (a) of section 1402 of such Code (defining net earnings from self-employment) is amended by striking out "and" at the end of paragraph (11), by redesignating paragraph (12) as paragraph (13), and by inserting after paragraph (11) the following new paragraph:

"(12) in lieu of the deduction provided by section 164(f) (relating to deduction for one-half of self-employment taxes), there shall be allowed a deduction equal to the product of—

"(A) the taxpayer's net earnings from self-employment for the taxable year (determined without regard to this paragraph), and

"(B) one-half of the sum of the rates imposed by subsections (a) and (b) of section 1401 for such year; and".

42 USC 411.

(3) CONFORMING AMENDMENT TO SOCIAL SECURITY ACT.—Subsection (a) of section 211 of the Social Security Act is amended by striking out "and" at the end of paragraph (10), by redesignating paragraph (11) as paragraph (12), and by inserting after paragraph (10) the following new paragraph:

"(11) In lieu of the deduction provided by section 164(f) of the Internal Revenue Code of 1954 (relating to deduction for one-half of self-employment taxes), there shall be allowed a deduction equal to the product of—

"(A) the taxpayer's net earnings from self-employment for the taxable year (determined without regard to this paragraph), and

"(B) one-half of the sum of the rates imposed by subsections (a) and (b) of section 1401 of such Code for such year; and".

Supra.

(4) SECTION 164(F) DEDUCTION TAKEN INTO ACCOUNT IN COMPUTING EARNED INCOME.—

(A) Subparagraph (A) of section 401(c)(2) of such Code (defining earned income) is amended by striking out "and" at the end of clause (iv), by striking out the period at the end of clause (v) and inserting in lieu thereof ", and", and by inserting after clause (v) the following new clause: 96 Stat. 513. 26 USC 401.

"(vi) with regard to the deduction allowed to the taxpayer by section 164(f)." *Ante*, p. 90.

(B) Clause (ii) of section 43(c)(2)(A) of such Code is amended by inserting before the period ", but such net earnings shall be determined with regard to the deduction allowed to the taxpayer by section 164(f)". 26 USC 43.

(5) CONFORMING AMENDMENT.—Subsection (a) of section 275 of such Code (relating to denial of deduction for certain taxes) is amended by adding at the end thereof the following new sentence: 26 USC 275.

"Paragraph (1) shall not apply to any taxes to the extent such taxes are allowable as a deduction under section 164(f)."

(d) EFFECTIVE DATES.— 26 USC 1401 note.

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1983.

(2) SUBSECTION (c).—The amendments made by subsection (c) shall apply to taxable years beginning after December 31, 1989.

SEC. 125. TREATMENT OF CERTAIN FACULTY PRACTICE PLANS. 26 USC 125.

(a) GENERAL RULE.—For purposes of subsection (s) of section 3121 of the Internal Revenue Code of 1954 (relating to concurrent employment by 2 or more employers)—

(1) the following entities shall be deemed to be related corporations:

(A) a State university which employs health professionals as faculty members at a medical school, and

(B) a faculty practice plan described in section 501(c)(3) of such Code and exempt from tax under section 501(a) of such Code—

(i) which employs faculty members of such medical school, and

(ii) 30 percent or more of the employees of which are concurrently employed by such medical school; and

(2) remuneration which is disbursed by such faculty practice plan to a health professional employed by both such entities shall be deemed to have been actually disbursed by such university as a common paymaster and not to have been actually disbursed by such faculty practice plan.

(b) EFFECTIVE DATE.—The provisions of subsection (a) shall apply to remuneration paid after December 31, 1983.

ALLOCATIONS TO DISABILITY INSURANCE TRUST FUND

SEC. 126. (a) Section 201(b)(1) of the Social Security Act is amended by striking out clauses (K) through (M) and inserting in lieu thereof the following: "(K) 1.65 per centum of the wages (as so defined) paid after December 31, 1981, and before January 1, 1983, and so reported, (L) 1.25 per centum of the wages (as so defined) paid after December 31, 1982, and before January 1, 1984, and so reported, (M) 1.00 per centum of the wages (as so defined) paid after December 31, 1983, and before January 1, 1988, and so reported, (N) 1.06 per 42 USC 401.

centum of the wages (as so defined) paid after December 31, 1987, and before January 1, 1990, and so reported, (O) 1.20 per centum of the wages (as so defined) paid after December 31, 1989, and before January 1, 2000, and so reported, and (P) 1.42 per centum of the wages (as so defined) paid after December 31, 1999, and so reported,".

42 USC 401.

(b) Section 201(b)(2) of such Act is amended by striking out clauses (K) through (M) and inserting in lieu thereof the following: "(K) 1.2375 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1981, and before January 1, 1983, (L) 0.9375 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1982, and before January 1, 1984, (M) 1.00 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1983, and before January 1, 1988, (N) 1.06 per centum of the self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1987, and before January 1, 1990, (O) 1.20 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1989, and before January 1, 2000, and (P) 1.42 per centum of the self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1999,".

PART D—BENEFITS FOR CERTAIN SURVIVING, DIVORCED, AND DISABLED SPOUSES

BENEFITS FOR SURVIVING DIVORCED SPOUSES AND DISABLED WIDOWS AND WIDOWERS WHO REMARRY

42 USC 402.

SEC. 131. (a)(1) Section 202(e)(3) of the Social Security Act is repealed.

(2) Section 202(e)(4) of such Act is amended to read as follows:

"(4) For purposes of paragraph (1), if—

"(A) a widow or surviving divorced wife marries after attaining age 60 (or after attaining age 50 if she was entitled before such marriage occurred to benefits based on disability under this subsection), or

"(B) a disabled widow or disabled surviving divorced wife described in paragraph (1)(B)(ii) marries after attaining age 50, such marriage shall be deemed not to have occurred.".

(3)(A) Section 202(e) of such Act is further amended by redesignating paragraph (4) (as amended by paragraph (2) of this subsection), and paragraphs (5) through (8), as paragraphs (3) through (7), respectively.

(B) Section 202(e)(1)(B)(ii) of such Act is amended by striking out "(5)" and inserting in lieu thereof "(4)".

(C) Section 202(e)(1)(F) of such Act is amended by striking out "(6)" in clause (i) and "(5)" in clause (ii) and inserting in lieu thereof "(5)" and "(4)", respectively.

(D) Section 202(e)(2)(A) of such Act is amended by striking out "(8)" and inserting in lieu thereof "(7)".

(E) The paragraph of section 202(e) of such Act redesignated as paragraph (5) by subparagraph (A) of this paragraph is amended by striking out "(5)" and inserting in lieu thereof "(4)".

(F) The paragraph of such section 202(e) redesignated as paragraph (7) by subparagraph (A) of this paragraph is amended by striking out "(4)" and inserting in lieu thereof "(3)". 42 USC 402.

(G) Section 202(k) of such Act is amended by striking out "(e)(4)" each place it appears in paragraphs (2)(B) and (3)(B) and inserting in lieu thereof "(e)(3)".

(H) Section 226(e)(1)(A) of such Act is amended by striking out "202(e)(5)" and inserting in lieu thereof "202(e)(4)". 42 USC 426.

(b)(1) Section 202(f)(4) of such Act is repealed.

(2) Section 202(f)(5) of such Act is amended to read as follows:

"(5) For purposes of paragraph (1), if—

"(A) a widower marries after attaining age 60 (or after attaining age 50 if he was entitled before such marriage occurred to benefits based on disability under this subsection), or

"(B) a disabled widower described in paragraph (1)(B)(ii) marries after attaining age 50,

such marriage shall be deemed not to have occurred.".

(3)(A) Section 202(f) of such Act is further amended by redesignating paragraph (5) (as amended by paragraph (2) of this subsection), and paragraphs (6) through (8), as paragraphs (4) through (7), respectively.

(B) Section 202(f)(1)(B)(ii) of such Act is amended by striking out "(6)" and inserting in lieu thereof "(5)".

(C) Section 202(f)(1)(F) of such Act is amended by striking out "(7)" in clause (i) and "(6)" in clause (ii) and inserting in lieu thereof "(6)" and "(5)", respectively.

(D) Section 202(f)(2)(A) of such Act is amended by striking out "(5)" and inserting in lieu thereof "(4)".

(E) The paragraph of section 202(f) of such Act redesignated as paragraph (6) by subparagraph (A) of this paragraph is amended by striking out "(6)" and inserting in lieu thereof "(5)".

(F) Section 202(k) of such Act is amended by striking out "(f)(5)" each place it appears in paragraphs (2)(B) and (3)(B) and inserting in lieu thereof "(f)(4)".

(G) Section 226(e)(1)(A) of such Act is amended by striking out "202(f)(6)" and inserting in lieu thereof "202(f)(5)".

(c)(1) Section 202(s)(2) of such Act is amended by striking out "Subsection (f)(4), and so much of subsections (b)(3), (d)(5), (e)(3), (g)(3), and (h)(4)" and inserting in lieu thereof "So much of subsections (b)(3), (d)(5), (g)(3), and (h)(4)".

(2) Section 202(s)(3) of such Act is amended by striking out "(e)(3),".

(d)(1) The amendments made by this section shall be effective with respect to monthly benefits payable under title II of the Social Security Act for months after December 1983. Effective date. 42 USC 402 note. 42 USC 401.

(2) In the case of an individual who was not entitled to a monthly benefit of the type involved under title II of such Act for December 1983, no benefit shall be paid under such title by reason of such amendments unless proper application for such benefit is made.

ENTITLEMENT TO DIVORCED SPOUSE'S BENEFITS WITHOUT REGARD TO ENTITLEMENT OF INSURED INDIVIDUAL TO BENEFITS; EXEMPTION OF DIVORCED SPOUSE'S BENEFITS FROM DEDUCTION ON ACCOUNT OF WORK

SEC. 132. (a) Section 202(b) of the Social Security Act is amended by adding at the end thereof the following new paragraph: 42 USC 402.

"(5)(A) Notwithstanding the preceding provisions of this subsection, except as provided in subparagraph (B), the divorced wife of an individual who is not entitled to old-age or disability insurance benefits, but who has attained age 62 and is a fully insured individual (as defined in section 214), if such divorced wife—

42 USC 414.

"(i) meets the requirements of subparagraphs (A) through (D) of paragraph (1), and

"(ii) has been divorced from such insured individual for not less than 2 years,

shall be entitled to a wife's insurance benefit under this subsection for each month, in such amount, and beginning and ending with such months, as determined (under regulations of the Secretary) in the manner otherwise provided for wife's insurance benefits under this subsection, as if such insured individual had become entitled to old-age insurance benefits on the date on which the divorced wife first meets the criteria for entitlement set forth in clauses (i) and (ii).

"(B) A wife's insurance benefit provided under this paragraph which has not otherwise terminated in accordance with subparagraph (E), (F), (H), or (J) of paragraph (1) shall terminate with the month preceding the first month in which the insured individual is no longer a fully insured individual.".

42 USC 403.

(b)(1)(A) Section 203(b) of such Act is amended—

(i) by inserting "(1)" after "(b)";

(ii) by striking out "(1) such individual's benefit" and "(2) if such individual" and inserting in lieu thereof "(A) such individual's benefit" and "(B) if such individual", respectively;

(iii) by striking out "clauses (1) and (2)" and inserting in lieu thereof "clauses (A) and (B)";

(iv) by striking out "(A) an individual" and "(B) if a deduction" and inserting in lieu thereof "(i) an individual" and "(ii) if a deduction", respectively; and

(v) by adding at the end thereof the following new paragraph:

"(2) When any of the other persons referred to in paragraph (1)(B) is entitled to monthly benefits as a divorced spouse under section 202 (b) or (c) for any month and such person has been so divorced for not less than 2 years, the benefit to which he or she is entitled on the basis of the wages and self-employment income of the individual referred to in paragraph (1) for such month shall be determined without regard to deductions under this subsection as a result of excess earnings of such individual, and the benefits of all other individuals who are entitled for such month to monthly benefits under section 202 on the basis of the wages and self-employment income of such individual referred to in paragraph (1) shall be determined as if no such divorced spouse were entitled to benefits for such month.".

(B)(i) Section 203(f)(1) of such Act is amended—

(I) in the first sentence, by inserting "(excluding divorced spouses referred to in subsection (b)(2))" after "all other persons" the first place it appears, and by striking out "all other persons" the second place it appears and inserting in lieu thereof "all such other persons"; and

(II) in the second sentence, by inserting "(excluding divorced spouses referred to in subsection (b)(2))" after "other persons".

(ii) Section 203(f)(7) of such Act is amended by inserting "(excluding divorced spouses referred to in subsection (b)(2))" after "all persons".

(2) Section 203(d)(1) of such Act is amended—

(A) by inserting "(A)" after "(d)(1)"; and

(B) by adding at the end thereof the following new subparagraph:

"(B) When any divorced spouse is entitled to monthly benefits under section 202 (b) or (c) for any month and such divorced spouse has been so divorced for not less than 2 years, the benefit to which he or she is entitled for such month on the basis of the wages and self-employment income of the individual entitled to old-age insurance benefits referred to in subparagraph (A) shall be determined without regard to deductions under this paragraph as a result of excess earnings of such individual, and the benefits of all other individuals who are entitled for such month to monthly benefits under section 202 on the basis of the wages and self-employment income of such individual referred to in subparagraph (A) shall be determined as if no such divorced spouse were entitled to benefits for such month.". 42 USC 402.

(c)(1) The amendments made by subsection (a) shall apply with respect to monthly insurance benefits for months after December 1984, but only on the basis of applications filed on or after January 1, 1985. Effective date. 42 USC 402 note.

(2) The amendments made by subsection (b) shall apply with respect to monthly insurance benefits for months after December 1984. Effective date. 42 USC 403 note.

INDEXING OF DEFERRED SURVIVING SPOUSE'S BENEFITS TO RECENT WAGE LEVELS

SEC. 133. (a)(1) Section 202(e)(2) of the Social Security Act is amended— 42 USC 402.

(A) by redesignating subparagraph (B) as subparagraph (D); and

(B) by striking out "(2)(A) Except" and all that follows down through "If such deceased individual" and inserting in lieu thereof the following:

"(2)(A) Except as provided in subsection (q), paragraph (8) of this subsection, and subparagraph (D) of this paragraph, such widow's insurance benefit for each month shall be equal to the primary insurance amount (as determined for purposes of this subsection after application of subparagraphs (B) and (C)) of such deceased individual.

"(B)(i) For purposes of this subsection, in any case in which such deceased individual dies before attaining age 62 and section 215(a)(1) (as in effect after December 1978) is applicable in determining such individual's primary insurance amount— 42 USC 415.

"(I) such primary insurance amount shall be determined under the formula set forth in section 215(a)(1)(B) (i) and (ii) which is applicable to individuals who initially become eligible for old-age insurance benefits in the second year after the year specified in clause (ii),

"(II) the year specified in clause (ii) shall be substituted for the second calendar year specified in section 215(b)(3)(A)(ii)(I), and

"(III) such primary insurance amount shall be increased under section 215(i) as if it were the primary insurance amount referred to in section 215(i)(2)(A)(ii)(II), except that it shall be increased only for years beginning after the first year after the year specified in clause (ii).

"(ii) The year specified in this clause is the earlier of—

"(I) the year in which the deceased individual attained age 60, or would have attained age 60 had he lived to that age, or

"(II) the second year preceding the year in which the widow or surviving divorced wife first meets the requirements of paragraph (1)(B) or the second year preceding the year in which the deceased individual died, whichever is later.

"(iii) This subparagraph shall apply with respect to any benefit under this subsection only to the extent its application does not result in a primary insurance amount for purposes of this subsection which is less than the primary insurance amount otherwise determined for such deceased individual under section 215.

42 USC 415.

"(C) If such deceased individual.".

(2) Section 202(e) of such Act (as amended by paragraph (1) of this subsection) is further amended—

(A) in paragraph (1)(D) and in the matter in paragraph (1) following subparagraph (F)(ii), by inserting "(as determined after application of subparagraphs (B) and (C) of paragraph (2))" after "primary insurance amount"; and

(B) in paragraph (2)(D)(ii), by inserting "(as determined without regard to subparagraph (C))" after "primary insurance amount".

42 USC 402.

(b)(1) Section 202(f)(3) of such Act is amended—

(A) by redesignating subparagraph (B) as subparagraph (D); and

(B) by striking out "(3)(A) Except" and all that follows down through "If such deceased individual" and inserting in lieu thereof the following:

"(3)(A) Except as provided in subsection (q), paragraph (2) of this subsection, and subparagraph (D) of this paragraph, such widower's insurance benefit for each month shall be equal to the primary insurance amount (as determined for purposes of this subsection after application of subparagraphs (B) and (C)) of such deceased individual.

"(B)(i) For purposes of this subsection, in any case in which such deceased individual dies before attaining age 62 and section 215(a)(1) (as in effect after December 1978) is applicable in determining such individual's primary insurance amount—

"(I) such primary insurance amount shall be determined under the formula set forth in section 215(a)(1)(B) (i) and (ii) which is applicable to individuals who initially become eligible for old-age insurance benefits in the second year after the year specified in clause (ii),

"(II) the year specified in clause (ii) shall be substituted for the second calendar year specified in section 215(b)(3)(A)(ii)(I), and

"(III) such primary insurance amount shall be increased under section 215(i) as if it were the primary insurance amount referred to in section 215(i)(2)(A)(ii)(II), except that it shall be increased only for years beginning after the first year after the year specified in clause (ii).

"(ii) The year specified in this clause is the earlier of—

"(I) the year in which the deceased individual attained age 60, or would have attained age 60 had she lived to that age, or

"(II) the second year preceding the year in which the widower first meets the requirements of paragraph (1)(B) or the second

year preceding the year in which the deceased individual died, whichever is later.

"(iii) This subparagraph shall apply with respect to any benefit under this subsection only to the extent its application does not result in a primary insurance amount for purposes of this subsection which is less than the primary insurance amount otherwise determined for such deceased individual under section 215. 42 USC 415.

"(C) If such deceased individual.".

(2) Section 202(f) of such Act (as amended by paragraph (1) of this subsection) is further amended— 42 USC 402.

(A) in paragraph (1)(D) and in the matter in paragraph (1) following subparagraph (F)(ii), by inserting "(as determined after application of subparagraphs (B) and (C) of paragraph (3))" after "primary insurance amount"; and

(B) in paragraph (3)(D)(ii), by inserting "(as determined without regard to subparagraph (C))" after "primary insurance amount".

(c) The amendments made by this section shall apply with respect to monthly insurance benefits for months after December 1984 for individuals who first meet all criteria for entitlement to benefits under section 202 (e) or (f) of the Social Security Act (other than making application for such benefits) after December 1984. Effective date. 42 USC 402 note.

LIMITATION ON BENEFIT REDUCTION FOR EARLY RETIREMENT IN CASE OF DISABLED WIDOWS AND WIDOWERS

SEC. 134. (a)(1) Section 202(q)(1) of the Social Security Act is amended by striking out the semicolon at the end of subparagraph (B)(ii) and all that follows and inserting in lieu thereof a period. 42 USC 402.

(2)(A) Section 202(q)(6) of such Act is amended to read as follows:

"(6) For purposes of this subsection, the 'reduction period' for an individual's old-age, wife's, husband's, widow's, or widower's insurance benefit is the period—

"(A) beginning—

"(i) in the case of an old-age or husband's insurance benefit, with the first day of the first month for which such individual is entitled to such benefit,

"(ii) in the case of a wife's insurance benefit, with the first day of the first month for which a certificate described in paragraph (5)(A)(i) is effective, or

"(iii) in the case of a widow's or widower's insurance benefit, with the first day of the first month for which such individual is entitled to such benefit or the first day of the month in which such individual attains age 60, whichever is the later, and

"(B) ending with the last day of the month before the month in which such individual attains retirement age.".

(B) Section 202(q)(3)(G) of such Act is amended by striking out "paragraph (6)(A) (or, if such paragraph does not apply, the period specified in paragraph (6)(B))" and inserting in lieu thereof "paragraph (6)".

(C) Section 202(q) of such Act is further amended, in paragraphs (1)(B)(i), (3)(E)(ii), and (3)(F)(ii)(I), by striking out "paragraph (6)(A)" and inserting in lieu thereof "paragraph (6)".

(3) Section 202(q)(7) of such Act is amended by striking out the matter preceding subparagraph (A) and inserting in lieu thereof the following:

"(7) For purposes of this subsection, the 'adjusted reduction period' for an individual's old-age, wife's, husband's, widow's, or widower's insurance benefit is the reduction period prescribed in paragraph (6) for such benefit, excluding—".

42 USC 402.

(4) Section 202(q)(10) of such Act is amended—

(A) in that part of the second sentence preceding clause (A), by striking out "or an additional adjusted reduction period";

(B) in clauses (B)(i) and (C)(i), by striking out ", plus the number of months in the adjusted additional reduction period multiplied by 43/240 of 1 percent";

(C) in clause (B)(ii), by striking out "plus the number of months in the additional reduction period multiplied by 43/240 of 1 percent,"; and

(D) in clause (C)(ii), by striking out "plus the number of months in the adjusted additional reduction period multiplied by 43/240 of 1 percent.".

95 Stat. 1660.

(b) Section 202(m)(2)(B) of such Act (as applicable after the enactment of section 2 of Public Law 97-123) is amended by striking out "subsection (q)(6)(A)(ii)" and inserting in lieu thereof "subsection (q)(6)(B)".

Effective date.
42 USC 402 note.

(c) The amendments made by this section shall apply with respect to benefits for months after December 1983.

PART E—MECHANISMS TO ASSURE CONTINUED BENEFIT PAYMENTS IN UNEXPECTEDLY ADVERSE CONDITIONS

NORMALIZED CREDITING OF SOCIAL SECURITY TAXES TO TRUST FUNDS

42 USC 401.

SEC. 141. (a)(1) The last sentence of section 201(a) of the Social Security Act is amended—

(A) by striking out "from time to time" each place it appears and inserting in lieu thereof "monthly on the first day of each calendar month"; and

(B) by striking out "paid to or deposited into the Treasury" and inserting in lieu thereof "to be paid to or deposited into the Treasury during such month".

(2) Section 201(a) of such Act is further amended by adding at the end thereof the following new sentence: "All amounts transferred to either Trust Fund under the preceding sentence shall be invested by the Managing Trustee in the same manner and to the same extent as the other assets of such Trust Fund; and such Trust Fund shall pay interest to the general fund on the amount so transferred on the first day of any month at a rate (calculated on a daily basis, and applied against the difference between the amount so transferred on such first day and the amount which would have been transferred to the Trust Fund up to that day under the procedures in effect on January 1, 1983) equal to the rate earned by the investments of such Fund in the same month under subsection (d).".

42 USC 1395i.

(b)(1) The last sentence of section 1817(a) of such Act is amended—

(A) by striking out "from time to time" and inserting in lieu thereof "monthly on the first day of each calendar month"; and

(B) by striking out "paid to or deposited into the Treasury" and inserting in lieu thereof "to be paid to or deposited into the Treasury during such month".

(2) Section 1817(a) of such Act is further amended by adding at the end thereof the following new sentence: "All amounts transferred to the Trust Fund under the preceding sentence shall be invested by

the Managing Trustee in the same manner and to the same extent as the other assets of the Trust Fund; and the Trust Fund shall pay interest to the general fund on the amount so transferred on the first day of any month at a rate (calculated on a daily basis, and applied against the difference between the amount so transferred on such first day and the amount which would have been transferred to the Trust Fund up to that day under the procedures in effect on January 1, 1983) equal to the rate earned by the investments of the Trust Fund in the same month under subsection (c).".

(c) The amendments made by this section shall become effective on the first day of the month following the month in which this Act is enacted.

Effective date.
42 USC 401 note.

INTERFUND BORROWING EXTENSION

SEC. 142. (a)(1) Section 201(l)(1) of the Social Security Act is amended—

42 USC 401.

(A) by striking out "January 1983" and inserting in lieu thereof "January 1988"; and

(B) by inserting after "or" the second place it appears ", subject to paragraph (5),".

(2) (A) Section 201(l)(2) of such Act is amended—

(i) by striking out "from time to time" and inserting in lieu thereof "on the last day of each month after such loan is made";

(ii) by striking out "interest" and inserting in lieu thereof "the total interest accrued to such day"; and

(iii) by inserting before the period at the end thereof the following: "(even if such an investment would earn interest at a rate different than the rate earned by investments redeemed by the lending fund in order to make the loan)".

(B) The amendment made by this paragraph shall apply with respect to months beginning more than thirty days after the date of enactment of this Act.

Effective date.
42 USC 401 note.

(3) Section 201(l)(3) of such Act is amended—

(A) by inserting "(A)" after the paragraph designation; and

(B) by adding at the end thereof the following new subparagraphs:

"(B)(i) If on the last day of any year after a loan has been made under paragraph (1) by the Federal Hospital Insurance Trust Fund to the Federal Old-Age and Survivors Trust Fund or the Federal Disability Insurance Trust Fund, the Managing Trustee determines that the OASDI trust fund ratio exceeds 15 percent, he shall transfer from the borrowing Trust Fund to the Federal Hospital Insurance Trust Fund an amount that—

"(I) together with any amounts transferred from another borrowing Trust Fund under this paragraph for such year, will reduce the OASDI trust fund ratio to 15 percent; and

"(II) does not exceed the outstanding balance of such loan.

"(ii) Amounts required to be transferred under clause (i) shall be transferred on the last day of the first month of the year succeeding the year in which the determination described in clause (i) is made.

"(iii) For purposes of this subparagraph, the term 'OASDI trust fund ratio' means, with respect to any calendar year, the ratio of—

"(I) the combined balance in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, as of the last day of such calendar year, to

"(II) the amount estimated by the Secretary to be the total amount to be paid from the Federal Old-Age and Survivors

Insurance Trust Fund and the Federal Disability Insurance Trust Fund during the calendar year following such calendar year for all purposes authorized by section 201 (other than payments of interest on, and repayments of, loans from the Federal Hospital Insurance Trust Fund under paragraph (1), but excluding any transfer payments between such trust funds and reducing the amount of any transfer to the Railroad Retirement Account by the amount of any transfers into either such trust fund from that Account).

Repayment date.

"(C)(i) The full amount of all loans made under paragraph (1) (whether made before or after January 1, 1983) shall be repaid at the earliest feasible date and in any event no later than December 31, 1989.

"(ii) For the period after December 31, 1987, and before January 1, 1990, the Managing Trustee shall transfer each month to the Federal Hospital Insurance Trust Fund from any Trust Fund with any amount outstanding on a loan made from the Federal Hospital Insurance Trust Fund under paragraph (1) an amount not less than an amount equal to (I) the amount owed to the Federal Hospital Insurance Trust Fund by such Trust Fund at the beginning of such month (plus the interest accrued on the outstanding balance of such loan during such month), divided by (II) the number of months elapsing after the preceding month and before January 1990. The Managing Trustee may, during this period, transfer larger amounts than prescribed by the preceding sentence.".

42 USC 401.

(4) Section 201(l) of such Act is further amended by adding at the end thereof the following new paragraph:

"(5)(A) No amounts may be borrowed from the Federal Hospital Insurance Trust Fund under paragraph (1) during any month if the Hospital Insurance Trust Fund ratio for such month is less than 10 percent.

"Hospital Insurance Trust Fund ratio."

"(B) For purposes of this paragraph, the term 'Hospital Insurance Trust Fund ratio' means, with respect to any month, the ratio of—

"(i) the balance in the Federal Hospital Insurance Trust Fund, reduced by the outstanding amount of any loan (including interest thereon) theretofore made to such Trust Fund under this subsection, as of the last day of the second month preceding such month, to

"(ii) the amount obtained by multiplying by twelve the total amount which (as estimated by the Secretary) will be paid from the Federal Hospital Insurance Trust Fund during the month for which such ratio is to be determined (other than payments of interest on, or repayments of loans from another Trust Fund under this subsection), and reducing the amount of any transfers to the Railroad Retirement Account by the amount of any transfer into the Hospital Insurance Trust Fund from that Account.".

42 USC 1395i.

(b)(1) Section 1817(j)(1) of such Act is amended—

(A) by striking out "January 1983" and inserting in lieu thereof "January 1988"; and

(B) by inserting ", subject to paragraph (5)," after "may".

(2)(A) Section 1817(j)(2) of such Act is amended—

(i) by striking out "from time to time" and inserting in lieu thereof "on the last day of each month after such loan is made";

(ii) by striking out "interest" and inserting in lieu thereof "the total interest accrued to such day"; and

(iii) by inserting before the period at the end thereof the following: "(even if such an investment would earn interest at a rate different than the rate earned by investments redeemed by the lending fund in order to make the loan)".

(B) The amendment made by this paragraph shall apply with respect to months beginning more than 30 days after the date of enactment of this Act.

Effective date. 42 USC 1395i note.

(3) Section 1817(j)(3) of such Act is amended—

42 USC 1395i.

(A) by inserting "(A)" after the paragraph designation; and

(B) by adding at the end thereof the following new subparagraphs:

"(B)(i) If on the last day of any year after a loan has been made under paragraph (1) by the Federal Old-Age and Survivors Insurance Trust Fund or the Federal Disability Insurance Trust Fund to the Federal Hospital Insurance Trust Fund, the Managing Trustee determines that the Hospital Insurance Trust Fund ratio exceeds 15 percent, he shall transfer from such Trust Fund to the lending trust fund an amount that—

"(I) together with any amounts transferred to another lending trust fund under this paragraph for such year, will reduce the Hospital Insurance Trust Fund ratio to 15 percent; and

"(II) does not exceed the outstanding balance of such loan.

"(ii) Amounts required to be transferred under clause (i) shall be transferred on the last day of the first month of the year succeeding the year in which the determination described in clause (i) is made.

"(iii) For purposes of this subparagraph, the term 'Hospital Insurance Trust Fund ratio' means, with respect to any calendar year, the ratio of—

"Hospital Insurance Trust Fund ratio."

"(I) the balance in the Federal Hospital Insurance Trust Fund, as of the last day of such calendar year; to

"(II) the amount estimated by the Secretary to be the total amount to be paid from the Federal Hospital Insurance Trust Fund during the calendar year following such calendar year (other than payments of interest on, and repayments of, loans from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund under paragraph (1)), and reducing the amount of any transfer to the Railroad Retirement Account by the amount of any transfers into such Trust Fund from the Railroad Retirement Account.

"(C)(i) The full amount of all loans made under paragraph (1) (whether made before or after January 1, 1983) shall be repaid at the earliest feasible date and in any event no later than December 31, 1989.".

Repayment date.

"(ii) For the period after December 31, 1987 and before January 1, 1990, the Managing Trustee shall transfer each month from the Federal Hospital Insurance Trust Fund to any Trust Fund that is owed any amount by the Federal Hospital Insurance Trust Fund on a loan made under paragraph (1), an amount not less than an amount equal to (I) the amount owed to such Trust Fund by the Federal Hospital Insurance Trust Fund at the beginning of such month (plus the interest accrued on the outstanding balance of such loan during such month), divided by (II) the number of months elapsing after the preceding month and before January 1990. The Managing Trustee may, during this period, transfer larger amounts than prescribed by the preceding sentence.".

(4) Section 1817(j) of such Act is further amended by adding at the end thereof the following new paragraph:

"(5)(A) No amounts may be loaned by the Federal Old-Age and Survivors Insurance Trust Fund or the Federal Disability Insurance Trust Fund under paragraph (1) during any month if the OASDI trust fund ratio for such month is less than 10 percent.

"OASDI trust fund ratio."

"(B) For purposes of this paragraph, the term 'OASDI trust fund ratio' means, with respect to any month, the ratio of—

"(i) the combined balance in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, reduced by the outstanding amount of any loan (including interest thereon) theretofore made to either such Trust Fund from the Federal Hospital Insurance Trust Fund under section 201(l), as of the last day of the second month preceding such month, to

42 USC 401.

"(ii) the amount obtained by multiplying by twelve the total amount which (as estimated by the Secretary) will be paid from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund during the month for which such ratio is to be determined for all purposes authorized by section 201 (other than payments of interest on, or repayments of, loans from the Federal Hospital Insurance Trust Fund under section 201(l)), but excluding any transfer payments between such trust funds and reducing the amount of any transfers to the Railroad Retirement Account by the amount of any transfers into either such trust fund from that Account.".

RECOMMENDATIONS BY BOARD OF TRUSTEES TO REMEDY INADEQUATE BALANCES IN THE SOCIAL SECURITY TRUST FUNDS

SEC. 143. Title VII of the Social Security Act is amended by adding at the end thereof the following new section:

"RECOMMENDATIONS BY BOARD OF TRUSTEES TO REMEDY INADEQUATE BALANCES IN THE SOCIAL SECURITY TRUST FUNDS

Report to Congress.
42 USC 910.

"SEC. 709. (a) If the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, or the Federal Supplementary Medical Insurance Trust Fund determines at any time that the balance ratio of any such Trust Fund for any calendar year may become less than 20 percent, the Board shall promptly submit to each House of the Congress a report setting forth its recommendations for statutory adjustments affecting the receipts and disbursements of such Trust Fund necessary to maintain the balance ratio of such Trust Fund at not less than 20 percent, with due regard to the economic conditions which created such inadequacy in the balance ratio and the amount of time necessary to alleviate such inadequacy in a prudent manner. The report shall set forth specifically the extent to which benefits would have to be reduced, taxes under section 1401, 3101, or 3111 of the Internal Revenue Code of 1954 would have to be increased, or a combination thereof, in order to obtain the objectives referred to in the preceding sentence.

26 USC 1401, 3101, 3111.

"Balance ratio."

"(b) For purposes of this section, the term 'balance ratio' means, with respect to any calendar year in connection with any Trust Fund referred to in subsection (a), the ratio of—

"(1) the balance in such Trust Fund, reduced by the outstanding amount of any loan (including interest thereon) theretofore

made to such Trust Fund under section 201(l) or 1817(j), as of the beginning of such year, to 42 USC 401, 1395i.

"(2) the total amount which (as estimated by the Secretary) will be paid from such Trust Fund during such calendar year for all purposes authorized by section 201, 1817, or 1841 (as applicable), other than payments of interest on, or repayments of, loans under section 201(l) or 1817(j), but excluding any transfer payments between such Trust Fund and any other Trust Fund referred to in subsection (a) and reducing the amount of any transfers to the Railroad Retirement Account by the amount of any transfers into such Trust Fund from that Account.". 42 USC 1395t.

PART F—OTHER FINANCING AMENDMENTS

FINANCING OF NONCONTRIBUTORY MILITARY WAGE CREDITS

SEC. 151. (a) Section 217(g) of the Social Security Act is amended to read as follows: 42 USC 417.

"Appropriation to Trust Funds

"(g)(1) Within thirty days after the date of the enactment of the Social Security Amendments of 1983, the Secretary shall determine the amount equal to the excess of—

"(A) the actuarial present value as of such date of enactment of the past and future benefit payments from the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund under this title and title XVIII, together with associated administrative costs, resulting from the operation of this section (other than this subsection) and section 210 of this Act as in effect before the enactment of the Social Security Amendments of 1950, over 42 USC 1395. 42 USC 410.

"(B) any amounts previously transferred from the general fund of the Treasury to such Trust Funds pursuant to the provisions of this subsection as in effect immediately before the date of the enactment of the Social Security Amendments of 1983. 42 USC 1305 note.

Such actuarial present value shall be based on the relevant actuarial assumptions set forth in the report of the Board of Trustees of each such Trust Fund for 1983 under sections 201(c) and 1817(b). Within thirty days after the date of the enactment of the Social Security Amendments of 1983, the Secretary of the Treasury shall transfer the amount determined under this paragraph with respect to each such Trust Fund to such Trust Fund from amounts in the general fund of the Treasury not otherwise appropriated. *Post*, pp. 107, 135.

"(2) The Secretary shall revise the amount determined under paragraph (1) with respect to each such Trust Fund in 1985 and each fifth year thereafter, as determined appropriate by the Secretary from data which becomes available to him after the date of the determination under paragraph (1) on the basis of the amount of benefits and administrative expenses actually paid from such Trust Fund under this title or title XVIII and the relevant actuarial assumptions set forth in the report of the Board of Trustees of such Trust Fund for such year under section 201(c) or 1817(b). Within 30 days after any such revision, the Secretary of the Treasury, to the extent provided in advance in appropriation Acts, shall transfer to such Trust Fund, from amounts in the general fund of the Treasury

not otherwise appropriated, or from such Trust Fund to the general fund of the Treasury, such amounts as the Secretary of the Treasury determines necessary to take into account such revision.".

42 USC 429.

(b)(1) Section 229(b) of such Act is amended to read as follows:

"(b) There are authorized to be appropriated to each of the Trust Funds, consisting of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund, for transfer on July 1 of each calendar year to such Trust Fund from amounts in the general fund in the Treasury not otherwise appropriated, an amount equal to the total of the additional amounts which would be appropriated to such Trust Fund for the fiscal year ending September 30 of such calendar year under section 201 or 1817 of this Act if the amounts of the additional wages deemed to have been paid for such calendar year by reason of subsection (a) constituted remuneration for employment (as defined in section 3121(b) of the Internal Revenue Code of 1954) for purposes of the taxes imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954. Amounts authorized to be appropriated under this subsection for transfer on July 1 of each calendar year shall be determined on the basis of estimates of the Secretary of the wages deemed to be paid for such calendar year under subsection (a); and proper adjustments shall be made in amounts authorized to be appropriated for subsequent transfer to the extent prior estimates were in excess of or were less than such wages so deemed to be paid.".

42 USC 401, 1395i.

26 USC 3121.

26 USC 3101, 3111.

Effective date.
42 USC 429 note.

(2) The amendment made by paragraph (1) shall be effective with respect to wages deemed to have been paid for calendar years after 1983.

42 USC 429 note.

(3)(A) Within thirty days after the date of the enactment of this Act, the Secretary of Health and Human Services shall determine the additional amounts which would have been appropriated to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund under sections 201 and 1817 of the Social Security Act if the additional wages deemed to have been paid under section 229(a) of the Social Security Act prior to 1984 had constituted remuneration for employment (as defined in section 3121(b) of the Internal Revenue Code of 1954) for purposes of the taxes imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954, and the amount of interest which would have been earned on such amounts if they had been so appropriated.

42 USC 429.

(B)(i) Within thirty days after the date of the enactment of this Act, the Secretary of the Treasury shall transfer to each such Trust Fund, from amounts in the general fund of the Treasury not otherwise appropriated, an amount equal to the amount determined with respect to such Trust Fund under subparagraph (A), less any amount appropriated to such Trust Fund pursuant to the provisions of section 229(b) of the Social Security Act prior to the date of the determination made under subparagraph (A) with respect to wages deemed to have been paid for calendar years prior to 1984.

Supra.

(ii) The Secretary of Health and Human Services shall revise the amount determined under clause (i) with respect to each such Trust Fund within one year after the date of the transfer made to such Trust Fund under clause (i), as determined appropriate by such Secretary from data which becomes available to him after the date of the transfer under clause (i). Within 30 days after any such revision, the Secretary of the Treasury shall transfer to such Trust

Fund, from amounts in the general fund of the Treasury not otherwise appropriated, or from such Trust Fund to the general fund of the Treasury, such amounts as the Secretary of Health and Human Services certifies as necessary to take into account such revision.

ACCOUNTING FOR CERTAIN UNNEGOTIATED CHECKS FOR BENEFITS UNDER THE SOCIAL SECURITY PROGRAM

SEC. 152. (a) Section 201 of the Social Security Act is amended by adding at the end thereof the following new subsection: 42 USC 401.

"(m)(1) The Secretary of the Treasury shall implement procedures to permit the identification of each check issued for benefits under this title that has not been presented for payment by the close of the sixth month following the month of its issuance.

"(2) The Secretary of the Treasury shall, on a monthly basis, credit each of the Trust Funds for the amount of all benefit checks (including interest thereon) drawn on such Trust Fund more than 6 months previously but not presented for payment and not previously credited to such Trust Fund, to the extent provided in advance in appropriation Acts.

"(3) If a benefit check is presented for payment to the Treasury and the amount thereof has been previously credited pursuant to paragraph (2) to one of the Trust Funds, the Secretary of the Treasury shall nevertheless pay such check, if otherwise proper, recharge such Trust Fund, and notify the Secretary of Health and Human Services.

"(4) A benefit check bearing a current date may be issued to an individual who did not negotiate the original benefit check and who surrenders such check for cancellation if the Secretary of the Treasury determines it is necessary to effect proper payment of benefits.".

(b) The amendment made by subsection (a) shall apply with respect to all checks for benefits under title II of the Social Security Act which are issued on or after the first day of the twenty-fourth month following the month in which this Act is enacted. Effective date. 42 USC 401 note. 42 USC 401.

(c)(1) The Secretary of the Treasury shall transfer from the general fund of the Treasury to the Federal Old-Age and Survivors Insurance Trust Fund and to the Federal Disability Insurance Trust Fund, in the month following the month in which this Act is enacted and in each of the succeeding 30 months, such sums as may be necessary to reimburse such Trust Funds in the total amount of all checks (including interest thereof) which he and the Secretary of Health and Human Services jointly determine to be unnegotiated benefit checks, to the extent provided in advance in appropriation Acts. After any amounts authorized by this subsection have been transferred to a Trust Fund with respect to any benefit check, the provisions of paragraphs (3) and (4) of section 201(m) of the Social Security Act (as added by subsection (a) of this section) shall be applicable to such check. Transfers from general Treasury fund. 42 USC 401 note.

(2) As used in paragraph (1), the term "unnegotiated benefit checks" means checks for benefits under title II of the Social Security Act which are issued prior to the twenty-fourth month following the month in which this Act is enacted, which remain unnegotiated after the sixth month following the date on which they were issued, and with respect to which no transfers have previously been made in accordance with the first sentence of such paragraph. "Unnegotiated benefit checks."

FLOAT PERIODS

Study.
42 USC 401 note.

SEC. 153. (a) The Secretary of Health and Human Services and the Secretary of the Treasury shall jointly undertake, as soon as possible after the date of the enactment of this Act, a thorough study with respect to the period of time (hereafter in this section referred to as the "float period") between the issuance of checks from the general fund of the Treasury in payment of monthly insurance benefits under title II of the Social Security Act and the transfer to the general fund from the Federal Old-Age and Survivors Insurance Trust Fund or the Federal Disability Insurance Trust Fund, as applicable, of the amounts necessary to compensate the general fund for the issuance of such checks. Each such Secretary shall consult the other regularly during the course of the study and shall, as appropriate, provide the other with such information and assistance as he may require.

42 USC 401.

(b) The study shall include—

(1) an investigation of the feasibility and desirability of maintaining the float periods which are allowed as of the date of the enactment of this section in the procedures governing the payment of monthly insurance benefits under title II of the Social Security Act, and of the general feasibility and desirability of making adjustments in such procedures with respect to float periods; and

(2) a separate investigation of the feasibility and desirability of providing, as a specific form of adjustment in such procedures with respect to float periods, for the transfer each day to the general fund of the Treasury from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, as appropriate, of amounts equal to the amounts of the checks referred to in subsection (a) which are paid by the Federal Reserve Banks on such day.

Consultation with OMB Director.

(c) In conducting the study required by subsection (a), the Secretaries shall consult, as appropriate, the Director of the Office of Management and Budget, and the Director shall provide the Secretaries with such information and assistance as they may require. The Secretaries shall also solicit the views of other appropriate officials and organizations.

Reports to President and Congress.

(d)(1) Not later than six months after the date of the enactment of this Act, the Secretaries shall submit to the President and the Congress a report of the findings of the investigation required by subsection (b)(1), and the Secretary of the Treasury shall by regulation make such adjustments in the procedures governing the payment of monthly insurance benefits under title II of the Social Security Act with respect to float periods (other than adjustments in the form described in subsection (b)(2)) as may have been found in such investigation to be necessary or appropriate.

(2) Not later than twelve months after the date of the enactment of this Act, the Secretaries shall submit to the President and the Congress a report of the findings of the separate investigation required by subsection (b)(2), together with their recommendations with respect thereto; and, to the extent necessary or appropriate to carry out such recommendations, the Secretary of the Treasury shall by regulation make adjustments in the procedures with respect to float periods in the form described in such subsection.

TRUST FUND TRUSTEES' REPORTS

SEC. 154. (a) The next to last sentence of section 201(c) of the Social Security Act is amended by striking out "Such report shall also include" and inserting in lieu thereof the following: "Such report shall include an actuarial opinion by the Chief Actuary of the Social Security Administration certifying that the techniques and methodologies used are generally accepted within the actuarial profession and that the assumptions and cost estimates used are reasonable: *Provided,* That the certification shall not refer to economic assumptions underlying the Trustee's report, and shall also include". 42 USC 401.

(b) Section 1817(b) of such Act is amended by inserting immediately before the last sentence the following new sentence: "Such report shall also include an actuarial opinion by the Chief Actuarial Officer of the Health Care Financing Administration certifying that the techniques and methodologies used are generally accepted within the actuarial profession and that the assumptions and cost estimates used are reasonable: *Provided,* That the certification shall not refer to economic assumptions underlying the Trustee's report.". 42 USC 1395i.

(c) Section 1841(b) of such Act is amended by inserting immediately before the last sentence the following new sentence: "Such report shall also include an actuarial opinion by the Chief Actuarial Officer of the Health Care Financing Administration certifying that the techniques and methodologies used are generally accepted within the actuarial profession and that the assumptions and cost estimates used are reasonable: *Provided,* That the certification shall not refer to economic assumptions underlying the Trustee's report.". 42 USC 1395t.

(d) Notwithstanding sections 201(c)(2), 1817(b)(2), and 1841(b)(2) of the Social Security Act, the annual reports of the Boards of Trustees of the Trust Funds which are required in the calendar year 1983 under those sections may be filed at any time not later than forty-five days after the date of the enactment of this Act. 42 USC 401 note.

(e) The amendments made by this section shall take effect on the date of the enactment of this Act. Effective date. 42 USC 401 note.

TITLE II—ADDITIONAL PROVISIONS RELATING TO LONG-TERM FINANCING OF THE SOCIAL SECURITY SYSTEM

INCREASE IN RETIREMENT AGE

SEC. 201. (a) Section 216 of the Social Security Act is amended by adding at the end thereof the following new subsection: 42 USC 416.

"Retirement Age

"(l)(1) The term 'retirement age' means—

"(A) with respect to an individual who attains early retirement age (as defined in paragraph (2)) before January 1, 2000, 65 years of age;

"(B) with respect to an individual who attains early retirement age after December 31, 1999, and before January 1, 2005, 65 years of age plus the number of months in the age increase factor (as determined under paragraph (3)) for the calendar year in which such individual attains early retirement age;

"(C) with respect to an individual who attains early retirement age after December 31, 2004, and before January 1, 2017, 66 years of age;

"(D) with respect to an individual who attains early retirement age after December 31, 2016, and before January 1, 2022, 66 years of age plus the number of months in the age increase factor (as determined under paragraph (3)) for the calendar year in which such individual attains early retirement age; and

"(E) with respect to an individual who attains early retirement age after December 31, 2021, 67 years of age.

"Early retirement age."

"(2) The term 'early retirement age' means age 62 in the case of an old-age, wife's, or husband's insurance benefit, and age 60 in the case of a widow's or widower's insurance benefit.

Age increase factor.

"(3) The age increase factor for any individual who attains early retirement age in a calendar year within the period to which subparagraph (B) or (D) of paragraph (1) applies shall be determined as follows:

"(A) With respect to an individual who attains early retirement age in the 5-year period consisting of the calendar years 2000 through 2004, the age increase factor shall be equal to two-twelfths of the number of months in the period beginning with January 2000 and ending with December of the year in which the individual attains early retirement age.

"(B) With respect to an individual who attains early retirement age in the 5-year period consisting of the calendar years 2017 through 2021, the age increase factor shall be equal to two-twelfths of the number of months in the period beginning with January 2017 and ending with December of the year in which the individual attains early retirement age.".

42 USC 402.

(b)(1) Section 202(q)(9) of such Act is amended to read as follows:

"(9) The amount of the reduction for early retirement specified in parargaph (1)—

"(A) for old-age insurance benefits, wife's insurance benefits, and husband's insurance benefits, shall be the amount specified in such paragraph for the first 36 months of the reduction period (as defined in paragraph (6)) or adjusted reduction period (as defined in paragraph (7)), and five-twelfths of 1 percent for any additional months included in such periods; and

"(B) for widow's insurance benefits and widower's insurance benefits, shall be periodically revised by the Secretary such that—

"(i) the amount of the reduction at early retirement age as defined in section 216(a) shall be 28.5 percent of the full benefit; and

Post, p. 112.

"(ii) the amount of the reduction for each month in the reduction period (specified in paragraph (6)) or the adjusted reduction period (specified in paragraph (7)) shall be established by linear interpolation between 28.5 percent at the month of attainment of early retirement age and 0 percent at the month of attainment of retirement age.".

(2) Section 202(q)(1) of such Act is amended by striking out "If" and inserting in lieu thereof "Subject to paragraph (9), if".

42 USC 401.

(c) Title II of the Social Security Act is further amended—

(1) by striking out "age 65" or "age of 65", as the case may be, each place it appears in the following sections and inserting in lieu thereof in each instance "retirement age (as defined in section 216(l))":

42 USC 402.

(A) subsections (a), (b), (c), (d), (e), (f), (q), (r), and (w) of section 202;

(B) subsections (c) (as amended by section 309(g) of this Act) and (f) of section 203; 42 USC 403.

(C) subsection (f) of section 215; 42 USC 415.

(D) subsections (h) and (i) of section 216; and 42 USC 416.

(E) section 223(a); and 42 USC 423.

(2) by striking out "age sixty-five" in section 203(c) (as amended by section 309(g) of this Act) and inserting in lieu thereof "retirement age (as defined in section 216(l))"; and 42 USC 403.

(3) by striking out "age of sixty-five" in section 223(a) and inserting in lieu thereof "retirement age (as defined in section 216(l))". 42 USC 423.

(d) The Secretary shall conduct a comprehensive study and analysis of the implications of the changes made by this section in retirement age in the case of those individuals (affected by such changes) who, because they are engaged in physically demanding employment or because they are unable to extend their working careers for health reasons, may not benefit from improvements in longevity. The Secretary shall submit to the Congress no later than January 1, 1986, a full report on the study and analysis. Such report shall include any recommendations for legislative changes, including recommendations with respect to the provision of protection against the risks associated with early retirement due to health considerations, which the Secretary finds necessary or desirable as a result of the findings contained in this study.

Implications of changes, study and analysis. 42 USC 416 note.

Report to Congress.

TITLE III—MISCELLANEOUS AND TECHNICAL PROVISIONS

PART A—ELIMINATION OF GENDER-BASED DISTINCTIONS

DIVORCED HUSBANDS

SEC. 301. (a)(1) Section 202(c)(1) of the Social Security Act is amended, in the matter preceding subparagraph (A), by inserting "and every divorced husband (as defined in section 216(d))" before "of an individual" and by inserting "or such divorced husband" after "if such husband". 42 USC 402.

(2) Section 202(c)(1) of such Act is further amended—

(A) by striking out "and" at the end of subparagraph (B);

(B) by redesignating subparagraph (C) as subparagraph (D), and by inserting after subparagraph (B) the following new subparagraph:

"(C) in the case of a divorced husband, is not married, and"; and

(C) by striking out the matter following subparagraph (D) (as so redesignated) and inserting in lieu thereof the following: "shall be entitled to a husband's insurance benefit for each month, beginning with—

"(i) in the case of a husband or divorced husband (as so defined) of an individual who is entitled to an old-age insurance benefit, if such husband or divorced husband has attained age 65, the first month in which he meets the criteria specified in subparagraphs (A), (B), (C), and (D), or

"(ii) in the case of a husband or divorced husband (as so defined) of—

"(I) an individual entitled to old-age insurance benefits, if such husband or divorced husband has not attained age 65, or

"(II) an individual entitled to disability insurance benefits,

the first month throughout which he is such a husband or divorced husband and meets the criteria specified in subparagraphs (B), (C), and (D) (if in such month he meets the criterion specified in subparagraph (A)),

whichever is earlier, and ending with the month preceding the month to which any of the following occurs:

"(E) he dies,

"(F) such individual dies,

"(G) in the case of a husband, they are divorced and either (i) he has not attained age 62, or (ii) he has attained age 62 but has not been married to such individual for a period of 10 years immediately before the divorce became effective,

"(H) in the case of a divorced husband, he marries a person other than such individual,

"(I) he becomes entitled to an old-age or disability insurance benefit based on a primary insurance amount which is equal to or exceeds one-half of the primary insurance amount of such individual, or

"(J) such individual is not entitled to disability insurance benefits and is not entitled to old-age insurance benefits.".

42 USC 402.

(3) Section 202(c)(3) of such Act is amended by inserting "(or, in the case of a divorced husband, his former wife)" before "for such month".

(4) Section 202(c) of such Act is further amended by adding after paragraph (3) the following new paragraph:

"(4) In the case of any divorced husband who marries—

"(A) an individual entitled to benefits under subsection (b), (e), (g), or (h) of this section, or

"(B) an individual who has attained the age of 18 and is entitled to benefits under subsection (d), by reason of paragraph (1)(B)(ii) thereof,

such divorced husband's entitlement to benefits under this subsection, notwithstanding the provisions of paragraph (1) (but subject to subsection (s)), shall not be terminated by reason of such marriage.".

(5) Section 202(c) of such Act is further amended by adding after paragraph (4) (as added by paragraph (4) of this subsection) the following new paragraph:

"(5)(A) Notwithstanding the preceding provisions of this subsection, except as provided in subparagraph (B), the divorced husband of an individual who is not entitled to old-age or disability insurance benefits, but who has attained age 62 and is a fully insured individual (as defined in section 214), if such divorced husband—

42 USC 414.

"(i) meets the requirements of subparagraphs (A) through (D) of paragraph (1), and

"(ii) has been divorced from such insured individual for not less than 2 years,

shall be entitled to a husband's insurance benefit under this subsection for each month, in such amount, and beginning and ending with such months, as determined (under regulations of the Secretary) in the manner otherwise provided for husband's insurance benefits under this subsection, as if such insured individual had become entitled to old-age insurance benefits on the date on which the divorced husband first meets the criteria for entitlement set forth in classes (i) and (ii).

"(B) A husband's insurance benefit provided under this paragraph which has not otherwise terminated in accordance with subparagraph (E), (F), (H), or (I) of paragraph (1) shall terminate with the month preceding the first month in which the insured individual is no longer a fully insured individual.".

(6) Section 202(c)(2)(A) of such Act is amended by inserting "(or divorced husband)" after "payable to such husband". 42 USC 402.

(7) Section 202(b)(3)(A) of such Act is amended by striking out "(f)" and inserting in lieu thereof "(c), (f),".

(8) Section 202(c)(1)(D) of such Act (as redesignated by paragraph (2) of this subsection) is amended by striking out "his wife" and inserting in lieu thereof "such individual".

(9) Section 202(d)(5)(A) of such Act is amended by inserting "(c)," after "(b),".

(b)(1) Section 202(f)(1) of such Act is amended, in the matter preceding subparagraph (A), by inserting "and every surviving divorced husband (as defined in section 216(d))" before "of an individual" and by inserting "or such surviving divorced husband" after "if such widower".

(2) Section 202(f)(1) of such Act is further amended by striking out "his deceased wife" in subparagraph (D) and in the matter following subparagraph (F) and inserting in lieu thereof "such deceased individual".

(3) Section 202(f)(3)(B)(ii)(II) of such Act (as amended by section 133(b)(1)(B) of this Act) is amended by inserting "or surviving divorced husband" after "widower". *Ante*, p. 96.

(4) Paragraph (3)(D) of section 202(f) of such Act (as redesignated by section 133(b)(1)(A) of this Act), and paragraphs (4), (5), and (6) of such section (as redesignated by section 131(b)(3)(A) of this Act), are each amended by inserting "or surviving divorced husband" after "widower" wherever it appears.

(5) Paragraph (3)(D) of section 202(f) of such Act (as redesignated by section 133(b)(1)(A) of this Act) is further amended by striking out "wife" wherever it appears and inserting in lieu thereof "individual".

(6) Section 202(g)(3)(A) of such Act is amended by inserting "(c)," before "(f),".

(7) Section 202(h)(4)(A) of such Act is amended by inserting "(c)," before "(e),".

(c)(1) Section 216(d) of such Act is amended by redesignating paragraph (4) as paragraph (6), and by inserting after paragraph (3) the following new paragraphs: 42 USC 416.

"(4) The term 'divorced husband' means a man divorced from an individual, but only if he had been married to such individual for a period of 10 years immediately before the date the divorce became effective. "Divorced husband."

"(5) The term 'surviving divorced husband' means a man divorced from an individual who has died, but only if he had been married to the individual for a period of 10 years immediately before the divorce became effective.". "Surviving divorced husband."

(2) The heading of section 216(d) of such Act is amended to read as follows:

"Divorced Spouses; Divorce".

(d)(1) Section 205(b) of such Act is amended by inserting "divorced husband," after "husband,", and by inserting "surviving divorced husband," after "widower,". 42 USC 405.

42 USC 405.

(2) Section 205(c)(1)(C) of such Act is amended by inserting "surviving divorced husband," after "wife,".

REMARRIAGE OF SURVIVING SPOUSE BEFORE AGE OF ELIGIBILITY

42 USC 402.

SEC. 302. Section 202(f)(1)(A) of the Social Security Act is amended by striking out "has not remarried" and inserting in lieu thereof "is not married".

ILLEGITIMATE CHILDREN

42 USC 416.

SEC. 303. (a) Section 216(h)(3) of the Social Security Act is amended by inserting "mother or" before "father" wherever it appears.

(b) Section 216(h)(3)(A)(ii) of such Act is amended by striking out all that follows "time" and inserting in lieu thereof "such applicant's application for benefits was filed;".

(c) Section 216(h)(3)(B)(ii) of such Act is amended by striking out "such period of disability began" and inserting in lieu thereof "such applicant's application for benefits was filed".

(d) Section 216(h)(3) of such Act is further amended—

(1) by striking out "his" wherever it appears and inserting in lieu thereof "his or her"; and

(2) by striking out "he" in subparagraph (B) and inserting in lieu thereof "he or she".

TRANSITIONAL INSURED STATUS

42 USC 427.

SEC. 304. (a) Section 227(a) of the Social Security Act is amended—

(1) by striking out "wife" wherever it appears and inserting in lieu thereof "spouse";

(2) by striking out "wife's" wherever it appears and inserting in lieu thereof "spouse's";

(3) by striking out "she" wherever it appears and inserting in lieu thereof "he or she";

(4) by striking out "his" and inserting in lieu thereof "the"; and

(5) by inserting "or section 202(c)" after "section 202(b)" wherever it appears.

(b) Section 227(b) and section 227(c) of such Act are amended—

(1) by striking out "widow" wherever it appears and inserting in lieu thereof "surviving spouse";

(2) by striking out "widow's" wherever it appears and inserting in lieu thereof "surviving spouse's";

(3) by striking out "her" wherever it appears and inserting in lieu thereof "the"; and

(4) by inserting "or section 202(f)" after "section 202(e)" wherever it appears.

Definitions.
42 USC 416.

(c) Section 216 of such Act is amended by inserting before subsection (b) the following new subsection:

"Spouse; Surviving Spouse

"(a)(1) The term 'spouse' means a wife as defined in subsection (b) or a husband as defined in subsection (f).

"(2) The term 'surviving spouse' means a widow as defined in subsection (c) or a widower as defined in subsection (g).".

EQUALIZATION OF BENEFITS UNDER SECTION 228

SEC. 305. (a) Section 228(b) of the Social Security Act is amended— 42 USC 428.

(1) by striking out "(1) Except as provided in paragraph (2), the" and inserting in lieu thereof "The"; and

(2) by striking out paragraph (2).

(b) Section 228(c)(2) of such Act is amended by striking out "(B) the larger of" and all that follows and inserting in lieu thereof "(B) the benefit amount as determined without regard to this subsection.".

(c) Section 228(c)(3) of such Act is amended to read as follows:

"(3) In the case of a husband or wife both of whom are entitled to benefits under this section for any month, the benefit amount of each spouse, after any reduction under paragraph (1), shall be further reduced (but not below zero) by the excess (if any) of (A) the total amount of any periodic benefits under governmental pension systems for which the other spouse is eligible for such month, over (B) the benefit amount of such other spouse as determined without regard to this subsection.".

(d) Section 228 of such Act is further amended—

(1) by striking out "he" wherever it appears in subsections (a) and (c)(1) and inserting in lieu thereof "he or she"; and

(2) by striking out "his" in subsection (c)(4)(C) and inserting in lieu thereof "his or her".

(e) The Secretary shall increase the amounts specified in section 228 of the Social Security Act, as amended by this section, to take into account any general benefit increases (as referred to in section 215(i)(3) of such Act), and any increases under section 215(i) of such Act, which have occurred after June 1974 or may hereafter occur. 42 USC 428 note. 42 USC 415.

FATHER'S INSURANCE BENEFITS

SEC. 306. (a) Section 202(g) of the Social Security Act is amended— 42 USC 402.

(1) by striking out "widow" wherever it appears and inserting in lieu thereof "surviving spouse";

(2) by striking out "widow's" wherever it appears and inserting in lieu thereof "surviving spouse's";

(3) by striking out "wife's insurance benefits" and "he" in paragraph (1)(D) and inserting in lieu thereof "a spouse's insurance benefit" and "such individual", respectively;

(4) by striking out "her" wherever it appears and inserting in lieu thereof "his or her";

(5) by striking out "she" wherever it appears and inserting in lieu thereof "he or she";

(6) by striking out "mother" wherever it appears and inserting in lieu thereof "parent";

(7) by inserting "or father's" after "mother's" wherever it appears;

(8) by striking out "after August 1950"; and

(9) in paragraph (3)(A) (as amended by section 301(b)(6) of this Act)—

(A) by inserting "this subsection or" before "subsection (a)"; and

(B) by striking out "(c)," and inserting in lieu thereof "(b), (c), (e),".

(b) The heading of section 202(g) of such Act is amended by inserting "and Father's" after "Mother's".

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42 USC 416.

(c) Section 216(d) of such Act (as amended by section 301(c)(1) of this Act) is further amended by redesignating paragraph (6) as paragraph (8) and by inserting after paragraph (5) the following new paragraphs:

"Surviving divorced father."

"(6) The term 'surviving divorced father' means a man divorced from an individual who has died, but only if (A) he is the father of her son or daughter, (B) he legally adopted her son or daughter while he was married to her and while such son or daughter was under the age of 18, (C) she legally adopted his son or daughter while he was married to her and while such son or daughter was under the age of 18, or (D) he was married to her at the time both of them legally adopted a child under the age of 18.

"Surviving divorced parent."

"(7) The term 'surviving divorced parent' means a surviving divorced mother as defined in paragraph (3) of this subsection or a surviving divorced father as defined in paragraph (6).".

42 USC 402.

(d) Section 202(c)(1) of such Act (as amended by section 301(a) of this Act) is further amended by inserting "(subject to subsection (s))" before "be entitled to" in the matter following subparagraph (D) and preceding subparagraph (E).

(e) Section 202(c)(1)(B) of such Act is amended by inserting after "62" the following: "or (in the case of a husband) has in his care (individually or jointly with such individual) at the time of filing such application a child entitled to child's insurance benefits on the basis of the wages and self-employment income of such individual".

(f) Section 202(c)(1) of such Act (as amended by section 301(a) of this Act and the preceding provisions of this section) is further amended by redesignating the new subparagraphs (I) and (J) as subparagraphs (J) and (K), respectively, and by inserting after subparagraph (H) the following new subparagraph:

"(I) in the case of a husband who has not attained age 62, no child of such individual is entitled to a child's insurance benefit,".

(g) Section 202(f)(1)(C) of such Act is amended by inserting "(i)" after "(C)", by inserting "or" after "223,", and by adding at the end thereof the following new clause:

"(ii) was entitled, on the basis of such wages and self-employment income, to father's insurance benefits for the month preceding the month in which he attained age 65, and".

Ante, p. 93.

(h) Section 202(f)(5) of such Act (as redesignated by section 131(b)(3)(A) of this Act) is amended by striking out "or" at the end of subparagraph (A), by redesignating subparagraph (B) as subparagraph (C), and by inserting immediately after subparagraph (A) the following new subparagraph:

"(B) the last month for which he was entitled to father's insurance benefits on the basis of the wages and self-employment income of such individual, or".

42 USC 403.

(i) Section 203(f)(1)(F) of such Act is amended by striking out "section 202(b) (but only by reason of having a child in her care within the meaning of paragraph (1)(B) of that subsection)" and inserting in lieu thereof "section 202(b) or (c) (but only by reason of having a child in his or her care within the meaning of paragraph (1)(B) of subsection (b) or (c), as may be applicable)".

EFFECT OF MARRIAGE ON CHILDHOOD DISABILITY BENEFITS AND ON OTHER DEPENDENTS' OR SURVIVORS' BENEFITS

SEC. 307. (a) Subsections (b)(3), (d)(5), (g)(3), and (h)(4) of section 202 of the Social Security Act (as amended by the preceding provisions of this Act) are each amended by striking out "; except that" and all that follows and inserting in lieu thereof a period. 42 USC 402.

(b) The amendments made by subsection (a) shall apply with respect to benefits under title II of the Social Security Act for months after the month in which this Act is enacted, but only in cases in which the "last month" referred to in the provision amended is a month after the month in which this Act is enacted. Effective date. 42 USC 402 note. 42 USC 401.

CREDIT FOR CERTAIN MILITARY SERVICE

SEC. 308. Section 217(f) of the Social Security Act is amended— 42 USC 417.

(1) by striking out "widow" each place it appears and inserting in lieu thereof "surviving spouse"; and

(2) by striking out "his" and "her" wherever they appear (except in clause (A) of paragraph (1)) and inserting in lieu thereof in each instance "his or her".

CONFORMING AMENDMENTS

SEC. 309. (a) Section 202(b)(3)(A) of the Social Security Act (as amended by section 301(a)(6) of this Act) is further amended by inserting "(g)," after "(f),". 42 USC 402.

(b) Section 202(q)(3) of such Act is amended by inserting "or surviving divorced husband" after "widower" in subparagraphs (E), (F), and (G).

(c) Section 202(q)(5) of such Act is amended—

(1) by inserting "or husband's" after "wife's" wherever it appears;

(2) by striking out "her" in subparagraph (A)(i) and inserting in lieu thereof "him or her";

(3) by striking out "her" the second place it appears in subparagraph (A)(ii) and inserting in lieu thereof "the";

(4) by striking out "she" wherever it appears and inserting in lieu thereof "he or she";

(5) by striking out "her" wherever it appears (except where paragraphs (2) and (3) of this subsection apply) and inserting in lieu thereof "his or her";

(6) by striking out "the woman" in subparagraph (B)(ii) and "a woman" in subparagraph (C) and inserting in lieu thereof "the individual" and "an individual", respectively; and

(7) in subparagraph (D)—

(A) by inserting "or widower's" after "widow's";

(B) by striking out "husband" wherever it appears and inserting in lieu thereof "spouse";

(C) by striking out "husband's" wherever it appears and inserting in lieu thereof "spouse's"; and

(D) by inserting "or father's" after "mother's".

(d)(1) Section 202(q)(6)(A) of such Act (as amended by section 134(a)(2) of this Act) is further amended by striking out "or husband's" in clause (i) and by inserting "or husband's" after "wife's" in clause (ii).

(2) Section 202(q)(7) of such Act is amended—

(A) in subparagraph (B), by inserting "or husband's" after "wife's", by striking out "she" and inserting in lieu thereof "such individual", and by inserting "his or" before "her", and

(B) in subparagraph (D), by inserting "or widower's" after "widow's".

42 USC 402.

(e)(1) Section 202(s)(1) of such Act is amended by inserting "(c)(1)," after "(b)(1),".

(2) Section 202(s)(2) of such Act (as amended by section 131(c)(1) of this Act) is further amended by inserting "(c)(4)," after "(b)(3),".

(3) Section 202(s)(3) of such Act (as amended by section 131(c)(2) of this Act) is further amended by striking out "So much" and all that follows down through "the last sentence" and inserting in lieu thereof "The last sentence".

42 USC 403.

(f) The third sentence of section 203(b)(1) of such Act (as amended by section 132(b) of this Act) is further amended by inserting "or father's" after "mother's".

(g) Section 203(c) of such Act is amended to read as follows:

"Deductions on Account of Noncovered Work Outside the United States or Failure to Have Child in Care

"(c) Deductions, in such amounts and at such time or times as the Secretary shall determine, shall be made from any payment or payments under this title to which an individual is entitled, until the total of such deductions equals such individual's benefits or benefit under section 202 for any month—

42 USC 402.

"(1) in which such individual is under the age of seventy and for more than forty-five hours of which such individual engaged in noncovered remunerative activity outside the United States;

"(2) in which such individual, if a wife or husband under age sixty-five entitled to a wife's or husband's insurance benefit, did not have in his or her care (individually or jointly with his or her spouse) a child of such spouse entitled to a child's insurance benefit and such wife's or husband's insurance benefit for such month was not reduced under the provisions of section 202(q);

"(3) in which such individual, if a widow or widower entitled to a mother's or father's insurance benefit, did not have in his or her care a child of his or her deceased spouse entitled to a child's insurance benefit; or

"(4) in which such an individual, if a surviving divorced mother or father entitled to a mother's or father's insurance benefit, did not have in his or her care a child of his or her deceased former spouse who (A) is his or her son, daughter, or legally adopted child and (B) is entitled to a child's insurance benefit on the basis of the wages and self-employment income of such deceased former spouse.

Child's insurance benefit, entitlement.
42 USC 422.

For purposes of paragraphs (2), (3), and (4) of this subsection, a child shall not be considered to be entitled to a child's insurance benefit for any month in which paragraph (1) of section 202(s) applies or an event specified in section 222(b) occurs with respect to such child. Subject to paragraph (3) of such section 202(s), no deduction shall be made under this subsection from any child's insurance benefit for the month in which the child entitled to such benefit attained the age of eighteen or any subsequent month; nor shall any deduction be made under this subsection from any widow's insurance benefit for any month in which the widow or surviving divorced wife is entitled and has not attained age 65 (but only if she became so entitled prior

to attaining age 60), or from any widower's insurance benefit for any month in which the widower or surviving divorced husband is entitled and has not attained age 65 (but only if he became so entitled prior to attaining age 60).".

(h) Section 203(d) of such Act is amended by inserting "divorced husband," after "husband," in paragraph (1)(A) (as amended by section 132(b)(2) of this Act) and by inserting "or father's" after "mother's" each place it appears in paragraph (2). 42 USC 403.

(i)(1) Section 205(b) of such Act (as amended by section 301(d)(1) of this Act) is further amended by inserting "surviving divorced father," after "surviving divorced mother,". 42 USC 405.

(2) Section 205(c)(1)(C) of such Act (as amended by section 301(d)(2) of this Act) is further amended by inserting "surviving divorced father," after "surviving divorced mother,".

(j) Section 216(f)(3)(A) of such Act is amended by inserting "(c)," before "(f)". 42 USC 416.

(k) Section 216(g)(6)(A) of such Act is amended by inserting "(c)," before "(f)".

(l) Section 222(b)(1) of such Act is amended by striking out "or surviving divorced wife" and inserting in lieu thereof ", surviving divorced wife, or surviving divorced husband". 42 USC 422.

(m) Section 222(b)(2) of such Act is amended by inserting "or father's" after "mother's" wherever it appears.

(n) Section 222(b)(3) of such Act is amended by inserting "divorced husband," after "husband,".

(o) Section 223(d)(2) of such Act is amended by striking out "or widower" in subparagraphs (A) and (B) and inserting in lieu thereof "widower, or surviving divorced husband". 42 USC 423.

(p) Section 225(a) of such Act is amended by inserting "or surviving divorced husband" after "widower". 42 USC 425.

(q)(1) Section 226(e)(3) of such Act is amended to read as follows: Hospital insurance benefits. 42 USC 426.

"(3) For purposes of determining entitlement to hospital insurance benefits under subsection (b), any disabled widow aged 50 or older who is entitled to mother's insurance benefits (and who would have been entitled to widow's insurance benefits by reason of disability if she had filed for such widow's benefits), and any disabled widower aged 50 or older who is entitled to father's insurance benefits (and who would have been entitled to widower's insurance benefits by reason of disability if he had filed for such widower's benefits), shall, upon application for such hospital insurance benefits be deemed to have filed for such widow's or widower's insurance benefits.".

(2) For purposes of determining entitlement to hospital insurance benefits under section 226(e)(3) of such Act, as amended by paragraph (1), an individual becoming entitled to such hospital insurance benefits as a result of the amendment made by such paragraph shall, upon furnishing proof of his or her disability within twelve months after the month in which this Act is enacted, under such procedures as the Secretary of Health and Human Services may prescribe, be deemed to have been entitled to the widow's or widower's benefits referred to in such section 226(e)(3), as so amended, as of the time such individual would have been entitled to such widow's or widower's benefits if he or she had filed a timely application therefor. 42 USC 426 note.

EFFECTIVE DATE OF PART A

SEC. 310. (a) Except as otherwise specifically provided in this title, the amendments made by this part apply only with respect to 42 USC 402 note.

42 USC 401.

monthly benefits payable under title II of the Social Security Act for months after the month in which this Act is enacted.

(b) Nothing in any amendment made by this part shall be construed as affecting the validity of any benefit which was paid, prior to the effective date of such amendment, as a result of a judicial determination.

PART B—COVERAGE

COVERAGE OF EMPLOYEES OF FOREIGN AFFILIATES OF AMERICAN EMPLOYERS

26 USC 3121.

SEC. 321. (a)(1) So much of subsection (l) of section 3121 of the Internal Revenue Code of 1954 (relating to agreements entered into by domestic corporations with respect to foreign subsidiaries) as precedes the second sentence of paragraph (1) thereof is amended to read as follows:

"(l) AGREEMENTS ENTERED INTO BY AMERICAN EMPLOYERS WITH RESPECT TO FOREIGN AFFILIATES.—

"(1) AGREEMENT WITH RESPECT TO CERTAIN EMPLOYEES OF FOREIGN AFFILIATE.—The Secretary shall, at the American employer's request, enter into an agreement (in such manner and form as may be prescribed by the Secretary) with any American employer (as defined in subsection (h)) who desires to have the insurance system established by title II of the Social Security Act extended to service performed outside the United States in the employ of any 1 or more of such employer's foreign affiliates (as defined in paragraph (8)) by all employees who are citizens or residents of the United States, except that the agreement shall not apply to any service performed by, or remuneration paid to, an employee if such service or remuneration would be excluded from the term 'employment' or 'wages', as defined in this section, had the service been performed in the United States."

42 USC 401.

26 USC 3121.

(2) Paragraph (8) of section 3121(l) of such Code (defining foreign subsidiary) is amended to read as follows:

"(8) FOREIGN AFFILIATE DEFINED.—For purposes of this subsection and section 210(a) of the Social Security Act—

42 USC 410.

"(A) IN GENERAL.—A foreign affiliate of an American employer is any foreign entity in which such American employer has not less than a 10-percent interest.

"(B) DETERMINATION OF 10-PERCENT INTEREST.—For purposes of subparagraph (A), an American employer has a 10-percent interest in any entity if such employer has such an interest directly (or through one or more entities)—

"(i) in the case of a corporation, in the voting stock thereof, and

"(ii) in the case of any other entity, in the profits thereof."

(b) The clause (B) of section 210(a) of the Social Security Act (defining employment) which precedes paragraph (1) thereof (as amended by section 323(a)(2) of this Act) is further amended to read as follows: "(B) outside the United States by a citizen or resident of the United States as an employee (i) of an American employer (as defined in subsection (e) of this section), or (ii) of a foreign affiliate (as defined in section 3121(l)(8) of the Internal Revenue Code of 1954) of an American employer during any period for which there is in

Supra.

effect an agreement, entered into pursuant to section 3121(l) of such Code, with respect to such affiliate,". 26 USC 3121.

(c) Subsection (a) of section 406 of the Internal Revenue Code of 1954 (relating to treatment of certain employees of foreign subsidiaries for pension, etc., purposes) is amended to read as follows: 26 USC 406.

"(a) TREATMENT AS EMPLOYEES OF AMERICAN EMPLOYER.—For purposes of applying this part with respect to a pension, profit-sharing, or stock bonus plan described in section 401(a), an annuity plan described in section 403(a), or a bond purchase plan described in section 405(a), of an American employer (as defined in section 3121(h)), an individual who is a citizen or resident of the United States and who is an employee of a foreign affiliate (as defined in section 3121(l)(8)) of such American employer shall be treated as an employee of such American employer, if— *Ante*, p. 118.

"(1) such American employer has entered into an agreement under section 3121(l) which applies to the foreign affiliate of which such individual is an employee;

"(2) the plan of such American employer expressly provides for contributions or benefits for individuals who are citizens or residents of the United States and who are employees of its foreign affiliates to which an agreement entered into by such American employer under section 3121(l) applies; and

"(3) contributions under a funded plan of deferred compensation (whether or not a plan described in section 401(a), 403(a), or 405(a)) are not provided by any other person with respect to the remuneration paid to such individual by the foreign affiliate."

(d) Paragraph (1) of section 407(a) of such Code (relating to certain employees of domestic subsidiaries engaged in business outside the United States) is amended— 26 USC 407.

(1) by striking out "citizen of the United States" and inserting in lieu thereof "citizen or resident of the United States", and

(2) by striking out "citizens of the United States" and inserting in lieu thereof "citizens or residents of the United States".

(e)(1) Those provisions of subsection (l) of section 3121 of such Code which are not amended by subsection (a) of this section are amended in accordance with the following table: 26 USC 3121.

Strike out (wherever it appears in the text or heading):	And insert:
domestic corporation	American employer
domestic corporations	American employers
subsidiary	affiliate
subsidiaries	affiliates
foreign corporation	foreign entity
foreign corporations	foreign entities
citizens	citizens or residents
the word "a" where it appears before "domestic".	an

(2)(A) Section 406 of such Code (other than subsection (a) thereof) is amended in accordance with the following table: 26 USC 406.

Strike out (wherever appearing in the text):	And insert:
domestic corporation	American employer
subsidiary	affiliate
the word "a" where it appears before "domestic".	an

(B) Paragraph (3) of subsection (c) of such section 406 (as in effect before the amendment made by subparagraph (A)) is amended by striking out "another corporation controlled by such domestic corpo-

ration" and inserting in lieu thereof "another entity in which such American employer has not less than a 10-percent interest (within the meaning of section 3121(l)(8)(B))".

Ante, p. 118.
26 USC 406.

(C)(i) So much of subsection (d) of such section 406 as precedes paragraph (1) thereof is amended by striking out "another corporation" and inserting in lieu thereof "another taxpayer".

(ii) Paragraph (1) of subsection (d) of such section 406 is amended by striking out "any other corporation" and inserting in lieu thereof "any other taxpayer".

(D)(i) The heading of such section 406 is amended to read as follows:

"SEC. 406. EMPLOYEES OF FOREIGN AFFILIATES COVERED BY SECTION 3121(l) AGREEMENTS.".

(ii) The table of sections for subpart A of part I of subchapter D of chapter 1 of such Code is amended by striking out the item relating to section 406 and inserting in lieu thereof the following:

"Sec. 406. Employees of foreign affiliates covered by section 3121(l) agreements."

26 USC 1402.

(3) Clause (A) of the second sentence of section 1402(b) of such Code (defining self-employment income) is amended by striking out "employees of foreign subsidiaries of domestic corporations" and inserting in lieu thereof "employees of foreign affiliates of American employers".

26 USC 6413.

(4)(A) Subparagraph (C) of section 6413(c)(2) of such Code (relating to special refunds of FICA taxes in the case of employees of certain foreign corporations) is amended—

(i) by striking out "FOREIGN CORPORATIONS" in the heading and inserting in lieu thereof "FOREIGN AFFILIATES", and

(ii) by striking out "domestic corporation" in the text and inserting in lieu thereof "American employer".

(B) The heading of paragraph (2) of section 6413(c) of such Code is amended by striking out "FOREIGN CORPORATIONS" and inserting in lieu thereof "FOREIGN AFFILIATES".

Effective dates.
26 USC 406 note.

(f)(1)(A) The amendments made by this section (other than subsection (d)) shall apply to agreements entered into after the date of the enactment of this Act.

(B) At the election of any American employer, the amendments made by this section (other than subsection (d)) shall also apply to any agreement entered into on or before the date of the enactment of this Act. Any such election shall be made at such time and in such manner as the Secretary may by regulations prescribe.

(2)(A) The amendments made by subsection (d) shall apply to plans established after the date of the enactment of this Act.

(B) At the election of any domestic parent corporation the amendments made by subsection (d) shall also apply to any plan established on or before the date of the enactment of this Act. Any such election shall be made at such time and in such manner as the Secretary may by regulations prescribe.

EXTENSION OF COVERAGE BY INTERNATIONAL SOCIAL SECURITY AGREEMENT

42 USC 410.

SEC. 322. (a)(1) Section 210(a) of the Social Security Act (as amended by sections 321(b) and 323(a)(2) of this Act) is further amended, in the matter preceding paragraph (1)—

(A) by striking out "either" before "(A)", and

(B) by inserting before "; except" the following: ", or (C) if it is service, regardless of where or by whom performed, which is designated as employment or recognized as equivalent to employment under an agreement entered into under section 233". 42 USC 433.

(2) Section 3121(b) of the Internal Revenue Code of 1954 is amended, in the matter preceding paragraph (1)— 26 USC 3121.

(A) by striking out "either" before "(A)", and

(B) by inserting before "; except" the following: ", or (C) if it is service, regardless of where or by whom performed, which is designated as employment or recognized as equivalent to employment under an agreement entered into under section 233 of the Social Security Act". 42 USC 433.

(b)(1) Section 211(b) of the Social Security Act is amended by inserting after "non-resident alien individual" the following: ", except as provided by an agreement under section 233". 42 USC 411.

(2) The first sentence of section 1402(b) of the Internal Revenue Code of 1954 is amended by inserting after "non-resident alien individual" the following: ", except as provided by an agreement under section 233 of the Social Security Act". 26 USC 1402.

(c) The amendments made by this section shall be effective for taxable years beginning on or after the date of the enactment of this Act. Effective date. 26 USC 3121 note.

TREATMENT OF CERTAIN SERVICE PERFORMED OUTSIDE THE UNITED STATES

SEC. 323. (a)(1) Subsection (b) of section 3121 of the Internal Revenue Code of 1954 (defining employment) is amended by striking out "a citizen of the United States" in the matter preceding paragraph (1) thereof and inserting in lieu thereof "a citizen or resident of the United States". 26 USC 3121.

(2) Subsection (a) of section 210 of the Social Security Act is amended by striking out "a citizen of the United States" in the matter preceding paragraph (1) thereof and inserting in lieu thereof "a citizen or resident of the United States". 26 USC 410.

(b)(1) Paragraph (11) of section 1402(a) of the Internal Revenue Code of 1954 (defining net earnings from self-employment) is amended by striking out "in the case of an individual described in section 911(d)(1)(B),". 26 USC 1402.

(2)(A) Paragraph (10) of section 211(a) of the Social Security Act (as amended by section 124(c)(3) of this Act) is further amended to read as follows: *Ante*, p. 90.

"(10) The exclusion from gross income provided by section 911(a)(1) of the Internal Revenue Code of 1954 shall not apply;". 26 USC 911.

(B) Effective with respect to taxable years beginning after December 31, 1981, and before January 1, 1984, paragraph (10) of section 211(a) of such Act is amended to read as follows:

"(10) In the case of an individual described in section 911(d)(1)(B) of the Internal Revenue Code of 1954, the exclusion from gross income provided by section 911(a)(1) of such Code shall not apply;".

(c)(1) The amendments made by subsection (a) shall apply to remuneration paid after December 31, 1983. Effective dates. 26 USC 3121 note.

(2) Except as provided in subsection (b)(2)(B), the amendments made by subsection (b) shall apply to taxable years beginning after December 31, 1983. 26 USC 1402 note.

AMOUNTS RECEIVED UNDER CERTAIN DEFERRED COMPENSATION AND SALARY REDUCTION ARRANGEMENTS TREATED AS WAGES FOR FICA TAXES

26 USC 3121.

SEC. 324. (a)(1) Section 3121 of the Internal Revenue Code of 1954 (relating to definitions) is amended by adding at the end thereof the following new subsection:

"(v) TREATMENT OF CERTAIN DEFERRED COMPENSATION AND SALARY REDUCTION ARRANGEMENTS.—

"(1) CERTAIN EMPLOYER CONTRIBUTIONS TREATED AS WAGES.—Nothing in any paragraph of subsection (a) (other than paragraph (1)) shall exclude from the term 'wages'—

"(A) any employer contribution under a qualified cash or deferred arrangement (as defined in section 401(k)) to the extent not included in gross income by reason of section 402(a)(8), or

"(B) any amount treated as an employer contribution under section 414(h)(2).

"(2) TREATMENT OF CERTAIN NONQUALIFIED DEFERRED COMPENSATION PLANS.—

"(A) IN GENERAL.—Any amount deferred under a nonqualified deferred compensation plan shall be taken into account for purposes of this chapter as of the later of—

"(i) when the services are performed, or

"(ii) when there is no substantial risk of forefeiture of the rights to such amount.

"(B) TAXED ONLY ONCE.—Any amount taken into account as wages by reason of subparagraph (A) (and the income attributable thereto) shall not thereafter be treated as wages for purposes of this chapter.

"(C) NONQUALIFIED DEFERRED COMPENSATION PLAN.—For purposes of this paragraph, the term 'nonqualified deferred compensation plan' means any plan or other arrangement for deferral of compensation other than a plan described in subsection (a)(5).

"(3) EXEMPT GOVERNMENTAL DEFERRED COMPENSATION PLAN.—For purposes of subsection (a)(5), the term 'exempt governmental deferred compensation plan' means any plan providing for deferral of compensation established and maintained for its employees by the United States, by a State or political subdivision thereof, or by an agency or instrumentality of any of the foregoing. Such term shall not include—

"(A) any plan to which section 83, 402(b), 403(c), 457(a), or 457(e)(1) applies, and

"(B) any annuity contract described in section 403(b)."

(2) Paragraph (5) of section 3121(a) of such Code (defining wages) is amended—

(A) by striking out "or" at the end of subparagraph (C),

(B) by striking out the semicolon at the end of subparagraph (D) and inserting in lieu thereof a comma, and

(C) by adding at the end thereof the following new subparagraphs:

"(E) under or to an annuity contract described in section 403(b), other than a payment for the purchase of such contract which is made by reason of a salary reduction agreement (whether evidenced by a written instrument or otherwise),

"(F) under or to an exempt governmental deferred compensation plan (as defined in subsection (v)(3)), or

"(G) to supplement pension benefits under a plan or trust described in any of the foregoing provisions of this paragraph to take into account some portion or all of the increase in the cost of living (as determined by the Secretary of Labor) since retirement but only if such supplemental payments are under a plan which is treated as a welfare plan under section 3(2)(B)(ii) of the Employee Retirement Income Security Act of 1974;". 29 USC 1002.

(3) Subsection (a) of section 3121 of such Code (defining wages) is amended— 26 USC 3121.

(A) in paragraph (2), by striking out subparagraph (A) and redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively,

(B) by striking out paragraphs (3) and (9),

(C) in paragraph (13)(A)—

(i) by inserting "or" after "death,", and

(ii) by striking out "or (iii) retirement after attaining an age specified in the plan referred to in subparagraph (B) or in a pension plan of the employer,", and

(D) by striking out "subparagraph (B)" in the last sentence thereof and inserting in lieu thereof "subparagraph (A)".

(b)(1) Section 3306 of the Internal Revenue Code of 1954 (relating to definitions) is amended by adding at the end thereof the following new subsection: 26 USC 3306.

"(r) TREATMENT OF CERTAIN DEFERRED COMPENSATION AND SALARY REDUCTION ARRANGEMENTS.—

"(1) CERTAIN EMPLOYER CONTRIBUTIONS TREATED AS WAGES.—Nothing in any paragraph of subsection (b) (other than paragraph (1)) shall exclude from the term 'wages'—

"(A) any employer contribution under a qualified cash or deferred arrangement (as defined in section 401(k)) to the extent not included in gross income by reason of section 402(a)(8), or

"(B) any amount treated as an employer contribution under section 414(h)(2).

"(2) TREATMENT OF CERTAIN NONQUALIFIED DEFERRED COMPENSATION PLANS.—

"(A) IN GENERAL.—Any amount deferred under a nonqualified deferred compensation plan shall be taken into account for purposes of this chapter as of the later of—

"(i) when the services are performed, or

"(ii) when there is no substantial risk of forfeiture of the rights to such amount.

"(B) TAXED ONLY ONCE.—Any amount taken into account as wages by reason of subparagraph (A) (and the income attributable thereto) shall not thereafter be treated as wages for purposes of this chapter.

"(C) NONQUALIFIED DEFERRED COMPENSATION PLAN.—For purposes of this paragraph, the term 'nonqualified deferred compensation plan' means any plan or other arrangement for deferral of compensation other than a plan described in subsection (b)(5)."

(2) Paragraph (5) of section 3306(b) of such Code (defining wages) is amended—

(A) by striking out "or" at the end of subparagraph (C),

(B) by striking out the semicolon at the end of subparagraph (D) and inserting in lieu thereof a comma, and

(C) by adding at the end thereof the following new subparagraphs:

"(E) under or to an annuity contract described in section 403(b), other than a payment for the purchase of such contract which is made by reason of a salary reduction agreement (whether evidenced by a written instrument or otherwise),

"(F) under or to an exempt governmental deferred compensation plan (as defined in section 3121(v)(3)), or

Ante, p. 122.

"(G) to supplement pension benefits under a plan or trust described in any of the foregoing provisions of this paragraph to take into account some portion or all of the increase in the cost of living (as determined by the Secretary of Labor) since retirement but only if such supplemental payments are under a plan which is treated as a welfare plan under section 3(2)(B)(ii) of the Employee Retirement Income Security Act of 1974;".

29 USC 1002.

26 USC 3306.

(3) Subsection (b) of section 3306 of such Code (defining wages) is amended—

(A) in paragraph (2), by striking out subparagraph (A) and redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively,

(B) by striking out paragraphs (3) and (8), and

(C) in paragraph (10)(A)—

(i) by inserting "or" after "death,", and

(ii) by striking out "or (iii) retirement after attaining an age specified in the plan referred to in subparagraph (B) or in a pension plan of the employer,".

(4)(A) Subparagraph (A) of section 3306(b)(2) of such Code, as redesignated by paragraph (3)(A), is amended to read as follows:

"(A) sickness or accident disability (but, in the case of payments made to an employee or any of his dependents, this subparagraph shall exclude from the term 'wages' only payments which are received under a workman's compensation law), or".

(B) Subsection (b) of section 3306 of such Code (defining wages) is amended by adding at the end thereof the following new flush sentence:

"Except as otherwise provided in regulations prescribed by the Secretary, any third party which makes a payment included in wages solely by reason of the parenthetical matter contained in subparagraph (A) of paragraph (2) shall be treated for purposes of this chapter and chapter 22 as the employer with respect to such wages."

26 USC 3201 *et seq.*

26 USC 3306 note.

26 USC 3121 note.

Supra.

(C) Rules similar to the rules of subsections (d) and (e) of section 3 of the Act entitled "An Act to amend the Omnibus Reconciliation Act of 1981 to restore minimum benefits under the Social Security Act" (Public Law 97-123), approved December 29, 1981, shall apply in the administration of section 3306(b)(2)(A) of such Code (as amended by subparagraph (A)).

Ante, p. 70.

(c)(1) Section 209 of the Social Security Act (as amended by section 101(c)(1) of this Act) is further amended by adding at the end thereof the following new paragraphs:

"Nothing in any of the foregoing provisions of this section (other than subsection (a)) shall exclude from the term 'wages'—

"(1) Any employer contribution under a qualified cash or deferred arrangement (as defined in section 401(k) of the Inter-

nal Revenue Code of 1954) to the extent not included in gross income by reason of section 402(a)(8) of such Code, or 26 USC 401.

"(2) Any amount which is treated as an employer contribution under section 414(h)(2) of such Code.

"Any amount deferred under a nonqualified deferred compensation plan (within the meaning of section 3121(v)(2)(C) of the Internal Revenue Code of 1954) shall be taken into account for purposes of this title as of the later of when the services are performed, or when there is no substantial risk of forfeiture of the rights to such amount. Any amount taken into account as wages by reason of the preceding sentence (and the income attributable thereto) shall not thereafter be treated as wages for purposes of this title." *Ante*, p. 122.

(2) Subsection (e) of section 209 of such Act is amended by adding before the semicolon at the end thereof the following: ", or (5) under or to an annuity contract described in section 403(b) of the Internal Revenue Code of 1954, other than a payment for the purchase of such contract which is made by reason of a salary reduction agreement (whether evidenced by a written instrument or otherwise), or (6) under or to an exempt governmental deferred compensation plan (as defined in section 3121(v)(3) of such Code), or (7) to supplement pension benefits under a plan or trust described in any of the foregoing provisions of this subsection to take into account some portion or all of the increase in the cost of living (as determined by the Secretary of Labor) since retirement but only if such supplemental payments are under a plan which is treated as a welfare plan under section 3(2)(B)(ii) of the Employee Retirement Income Security Act of 1974;". 42 USC 409. 26 USC 403. *Ante*, p. 122. 29 USC 1002.

(3) Section 209 of such Act is amended— 42 USC 409.

(A) in subsection (b), by striking out paragraph (1) and redesignating paragraphs (2), (3), and (4) as paragraphs (1), (2), and (3), respectively,

(B) by striking out subsections (c) and (i), and

(C) in subsection (m)(1)—

(i) by inserting "or" after "death,", and

(ii) by striking out "or (C) retirement after attaining an age specified in the plan referred to in paragraph (2) or in a pension plan of the employer,".

(4) Section 203(f)(5)(C) of the Social Security Act is amended by adding at the end thereof the following new sentence: "The term 'wages' does not include— 42 USC 403.

"(i) the amount of any payment made to, or on behalf of, an employee or any of his dependents (including any amount paid by an employer for insurance or annuities, or into a fund, to provide for any such payment) on account of retirement, or

"(ii) any payment or series of payments by an employer to an employee or any of his dependents upon or after the termination of the employee's employment relationship because of retirement after attaining an age specified in a plan referred to in section 209(m)(2) or in a pension plan of the employer." 42 USC 409.

(d)(1) Except as otherwise provided in this subsection, the amendments made by this section shall apply to remuneration paid after December 31, 1983. Effective dates. 26 USC 3121 note.

(2) Except as otherwise provided in this subsection, the amendments made by subsection (b) shall apply to remuneration paid after December 31, 1984.

Employer contributions.

(3) The amendments made by this section shall not apply to employer contributions made during 1984 and attributable to services performed during 1983 under a qualified cash or deferred arrangement (as defined in section 401(k) of the Internal Revenue Code of 1954) if, under the terms of such arrangement as in effect on March 24, 1983—

26 USC 401.

(A) the employee makes an election with respect to such contribution before January 1, 1984, and

(B) the employer identifies the amount of such contribution before January 1, 1984.

In the case of the amendments made by subsection (b), the preceding sentence shall be applied by substituting "1985" for "1984" each place it appears and by substituting "during 1984" for "during 1983".

(4) In the case of an agreement in existence on March 24, 1983, between a nonqualified deferred compensation plan (as defined in section 3121(v)(2)(C) of the Internal Revenue Code of 1954, as added by this section) and an individual—

Ante, p. 122.

(A) the amendments made by this section (other than subsection (b)) shall apply with respect to services performed by such individual after December 31, 1983, and

(B) the amendments made by subsection (b) shall apply with respect to services performed by such individual after December 31, 1984.

The preceding sentence shall not apply in the case of a plan to which section 457(a) of such Code applies.

26 USC 457.

EFFECT OF CHANGES IN NAMES OF STATE AND LOCAL EMPLOYEE GROUPS IN UTAH

42 USC 418.

SEC. 325. (a) Section 218(o) of the Social Security Act is amended by adding at the end thereof the following new sentence: "Coverage provided for in this subsection shall not be affected by a subsequent change in the name of a group.".

Effective date.
42 USC 418 note.

(b) The amendment made by subsection (a) shall apply with respect to name changes made before, on, or after the date of the enactment of this section.

EFFECTIVE DATES OF INTERNATIONAL SOCIAL SECURITY AGREEMENTS

42 USC 433.

SEC. 326. (a) Section 233(e)(2) of the Social Security Act is amended by striking out "during which each House of the Congress has been in session on each of 90 days" and inserting in lieu thereof "during which at least one House of the Congress has been in session on each of 60 days".

Effective date.
42 USC 433 note.

(b) The amendment made by subsection (a) shall be effective on the date of the enactment of this Act.

CODIFICATION OF ROWAN DECISION WITH RESPECT TO MEALS AND LODGING

26 USC 3121.

SEC. 327. (a)(1) Subsection (a) of section 3121 of the Internal Revenue Code of 1954 (defining wages) is amended by striking out "or" at the end of paragraph (17), by striking out the period at the end of paragraph (18) and inserting in lieu thereof "; or", and by inserting after paragraph (18) the following new paragraph:

"(19) the value of any meals or lodging furnished by or on behalf of the employer if at the time of such furnishing it is reasonable to believe that the employee will be able to exclude such items from income under section 119.".

(2) Section 209 of the Social Security Act is amended by striking out "or" at the end of the subsection (p) which was added by Public Law 95-472, by striking out the period at the end of subsection (q) and inserting in lieu thereof "; or", and by inserting after subsection (q) the following new subsection: 42 USC 409. 92 Stat. 1333.

"(r) The value of any meals or lodging furnished by or on behalf of the employer if at the time of such furnishing it is reasonable to believe that the employee will be able to exclude such items from income under section 119 of the Internal Revenue Code of 1954.". 26 USC 119.

(b)(1) Subsection (a) of section 3121 of such Code is amended by inserting after and below paragraph (19) (as added by subsection (a) of this section) the following new sentence: 26 USC 3121.

"Nothing in the regulations prescribed for purposes of chapter 24 (relating to income tax withholding) which provides an exclusion from 'wages' as used in such chapter shall be construed to require a similar exclusion from 'wages' in the regulations prescribed for purposes of this chapter.".

(2) Section 209 of the Social Security Act is amended by inserting immediately after and below subsection (r) (as added by subsection (a) of this section) the following new sentence: 42 USC 409.

"Nothing in the regulations prescribed for purposes of chapter 24 of the Internal Revenue Code of 1954 (relating to income tax withholding) which provides an exclusion from 'wages' as used in such chapter shall be construed to require a similar exclusion from 'wages' in the regulations prescribed for purposes of this title.". 26 USC 3401 *et seq.*

(c) Subsection (b) of section 3306 of the Internal Revenue Code of 1954 (defining wages) is amended— 26 USC 3306.

(1) by striking out "or" at the end of paragraph (12),

(2) by striking out the period at the end of paragraph (13) and inserting in lieu thereof ", or",

(3) by adding immediately after paragraph (13) the following new paragraph:

"(14) the value of any meals or lodging furnished by or on behalf of the employer if at the time of such furnishing it is reasonable to believe that the employee will be able to exclude such items from income under section 119.", and

(4) by adding at the end thereof the following new flush sentence:

"Nothing in the regulations prescribed for purposes of chapter 24 (relating to income tax withholding) which provides an exclusion from 'wages' as used in such chapter shall be construed to require a similar exclusion from 'wages' in the regulations prescribed for purposes of this chapter.".

(d)(1) Except as provided in paragraph (2), the amendments made by subsections (a) and (b) shall apply to remuneration paid after December 31, 1983. Effective dates. 26 USC 3121 note.

(2) The amendments made by subsection (c) shall apply to remuneration paid after December 31, 1984.

TREATMENT OF CONTRIBUTIONS UNDER SIMPLIFIED EMPLOYEE PENSIONS

26 USC 3121.

SEC. 328. (a) Subparagraph (D) of section 3121(a)(5) of the Internal Revenue Code of 1954 (defining wages) is amended by striking out "section 219" and inserting in lieu thereof "section 219(b)(2)".

42 USC 409.

(b) Subsection (e) of section 209 of the Social Security Act, (as amended by section 324(c)(2) of this Act) is further amended by striking out the semicolon at the end thereof and inserting in lieu thereof the following: ", or (8) under a simplified employee pension (as defined in section 408(k) of the Internal Revenue Code of 1954) if, at the time of the payment, it is reasonable to believe that the employee will be entitled to a deduction under section 219(b)(2) of such Code for such payment;".

26 USC 408.

26 USC 3306.

(c) Subparagraph (D) of section 3306(b)(5) of the Internal Revenue Code of 1954 is amended by striking out "section 219" and inserting in lieu thereof "section 219(b)(2)".

Effective dates.
26 USC 3121 note.

(d)(1) Except as provided in paragraph (2), the amendments made by this section shall apply to remuneration paid after December 31, 1983.

(2) The amendments made by subsection (c) shall apply to remuneration paid after December 31, 1984.

PART C—OTHER AMENDMENTS

TECHNICAL AND CONFORMING AMENDMENTS TO MAXIMUM FAMILY BENEFIT PROVISIONS

42 USC 403.

SEC. 331. (a)(1) Section 203(a)(3)(A) of the Social Security Act is amended by striking out clause (ii) and inserting in lieu thereof the following:

42 USC 415.

42 USC 430.

"(ii) an amount (I) initially equal to the product of 1.75 and the primary insurance amount that would be computed under section 215(a)(1), for January of the year determined for purposes of this clause under the following two sentences, with respect to average indexed monthly earnings equal to one-twelfth of the contribution and benefit base determined for that year under section 230, and (II) thereafter increased in accordance with the provisions of section 215(i)(2)(A)(ii).

The year established for purposes of clause (ii) shall be 1983 or, if it occurs later with respect to any individual, the year in which occurred the month that the application of the reduction provisions contained in this subparagraph began with respect to benefits payable on the basis of the wages and self-employment income of the insured individual. If for any month subsequent to the first month for which clause (ii) applies (with respect to benefits payable on the basis of the wages and self-employment income of the insured individual) the reduction under this subparagraph ceases to apply, then the year determined under the preceding sentence shall be redetermined (for purposes of any subsequent application of this subparagraph with respect to benefits payable on the basis of such wages and self-employment income) as though this subparagraph had not been previously applicable.".

(2) Section 203(a)(7) of such Act is amended by striking out everything that follows "shall be reduced to an amount equal to" and inserting in lieu thereof "the amount determined in accordance with the provisions of paragraph (3)(A)(ii) of this subsection, except that for this purpose the references to subparagraph (A) in the last two

sentences of paragraph (3)(A) shall be deemed to be references to paragraph (7).".

(b) Clause (i) in the last sentence of section 203(b)(1) of such Act (as amended by section 132(b) of this Act) is further amended by striking out "penultimate sentence" and inserting in lieu thereof "first sentence of paragraph (4)". *Ante*, p. 94.

(c) The amendments made by subsection (a) shall be effective with respect to payments made for months after December 1983. Effective date. 42 USC 403 note.

RELAXATION OF INSURED STATUS REQUIREMENTS FOR CERTAIN WORKERS PREVIOUSLY ENTITLED TO A PERIOD OF DISABILITY

SEC. 332. (a) Section 216(i)(3) of the Social Security Act is amended— 42 USC 416.

(1) by striking out the semicolon at the end of clause (ii) of subparagraph (B) and inserting in lieu thereof ", or"; and

(2) by inserting after clause (ii) of such subparagraph the following new clause:

"(iii) in the case of an individual (not otherwise insured under clause (i)) who, by reason of clause (ii), had a prior period of disability that began during a period before the quarter in which he or she attained age 31, not less than one-half of the quarters beginning after such individual attained age 21 and ending with such quarter are quarters of coverage, or (if the number of quarters in such period is less than 12) not less than 6 of the quarters in the 12-quarter period ending with such quarter are quarters of coverage;".

(b) Section 223(c)(1)(B) of such Act is amended— 42 USC 423.

(1) by striking out the semicolon at the end of clause (ii) and inserting in lieu thereof ", or"; and

(2) by inserting after clause (ii) the following new clause:

"(iii) in the case of an individual (not otherwise insured under clause (i)) who, by reason of section 216(i)(3)(B)(ii), had a prior period of disability that began during a period before the quarter in which he or she attained age 31, not less than one-half of the quarters beginning after such individual attained age 21 and ending with the quarter in which such month occurs are quarters of coverage, or (if the number of quarters in such period is less than 12) not less than 6 of the quarters in the 12-quarter period ending with such quarter are quarters of coverage;". 42 USC 416.

(c) The amendments made by this section shall be effective with respect to applications for disability insurance benefits under section 223 of the Social Security Act, and for disability determinations under section 216(i) of such Act, filed after the date of the enactment of this Act, except that no monthly benefits under title II of the Social Security Act shall be payable or increased by reason of the amendments made by this section for months before the month following the month of enactment of this Act. Effective date. 42 USC 416 note. 42 USC 423. 42 USC 416. 42 USC 401.

PROTECTION OF BENEFITS OF ILLEGITIMATE CHILDREN OF DISABLED BENEFICIARIES

SEC. 333. (a) The last sentence of section 216(h)(3) of the Social Security Act is amended by striking out "subparagraph (A)(i)" and inserting in lieu thereof "subparagraphs (A)(i) and (B)(i)". 42 USC 416.

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Effective date.
42 USC 416 note.

(b) The amendment made by subsection (a) shall be effective on the date of the enactment of this Act.

ONE-MONTH RETROACTIVITY OF WIDOW'S AND WIDOWER'S INSURANCE BENEFITS

42 USC 402.

SEC. 334. (a) Section 202(j)(4)(B) of the Social Security Act is amended—

(1) by redesignating clauses (iii) and (iv) as clauses (iv) and (v), respectively; and

(2) by adding after clause (ii) the following new clause:

"(iii) Subparagraph (A) does not apply to a benefit under subsection (e) or (f) for the month immediately preceding the month of application, if the insured individual died in that preceding month.".

Effective date.
42 USC 402 note.

(b) The amendments made by subsection (a) shall apply with respect to survivors whose applications for monthly benefits are filed after the second month following the month in which this Act is enacted.

NONASSIGNABILITY OF BENEFITS

42 USC 407.

SEC. 335. (a) Section 207 of the Social Security Act is amended—

(1) by inserting "(a)" before "The right"; and

(2) by adding at the end thereof the following new subsection:

"(b) No other provision of law, enacted before, on, or after the date of the enactment of this section, may be construed to limit, supersede, or otherwise modify the provisions of this section except to the extent that it does so by express reference to this section.".

42 USC 659.

(b)(1) Section 459(a) of such Act is amended by inserting "(including section 207)" after "any other provision of law".

Ante, p. 80.

(2)(A) Section 86(a) of the Internal Revenue Code of 1954 (as added by section 121(a) of this Act) is amended by inserting "(notwithstanding section 207 of the Social Security Act)" before "includes".

Ante, p. 82.

(B) Section 871(a)(3)(A) of such Code (as added by section 121(c)(1) of this Act) is amended by inserting "(notwithstanding section 207 of the Social Security Act)" after "income".

Effective date.
42 USC 407 note.

(c) The amendments made by subsection (a) shall apply only with respect to benefits payable or rights existing under the Social Security Act on or after the date of the enactment of this Act.

USE OF DEATH CERTIFICATES TO PREVENT ERRONEOUS BENEFIT PAYMENTS TO DECEASED INDIVIDUALS

42 USC 405.

SEC. 336. Section 205 of the Social Security Act is amended by adding at the end thereof the following new subsection:

"USE OF DEATH CERTIFICATES TO CORRECT PROGRAM INFORMATION

"(r)(1) The Secretary shall undertake to establish a program under which—

"(A) States (or political subdivisions thereof) voluntarily contract with the Secretary to furnish the Secretary periodically with information (in a form established by the Secretary in consultation with the States) concerning individuals with respect to whom death certificates (or equivalent documents maintained by the States or subdivisions) have been officially filed with them; and

"(B) there will be (i) a comparison of such information on such individuals with information on such individuals in the records being used in the administration of this Act, (ii) validation of the results of such comparisons, and (iii) corrections in such records to accurately reflect the status of such individuals.

"(2) Each State (or political subdivision thereof) which furnishes the Secretary with information on records of deaths in the State or subdivision under this subsection may be paid by the Secretary from amounts available for administration of this Act the reasonable costs (established by the Secretary in consultations with the States) for transcribing and transmitting such information to the Secretary.

"(3) In the case of individuals with respect to whom federally funded benefits are provided by (or through) a Federal or State agency other than under this Act, the Secretary shall to the extent feasible provide such information through a cooperative arrangement with such agency, for ensuring proper payment of those benefits with respect to such individuals if— Cooperative arrangements with State or Federal agencies.

"(A) under such arrangement the agency provides reimbursement to the Secretary for the reasonable cost of carrying out such arrangement, and

"(B) such arrangement does not conflict with the duties of the Secretary under paragraph (1).

"(4) The Secretary may enter into similar agreements with States to provide information for their use in programs wholly funded by the States if the requirements of (r)(3)(A) and (r)(3)(B) are met.

"(5) The Secretary may use or provide for the use of such records as may be corrected under this section, subject to such safeguards as the Secretary determines are necessary or appropriate to protect the information from unauthorized use or disclosure, for statistical and research activities conducted by Federal and State agencies. Information protection.

"(6) Information furnished to the Secretary under this subsection may not be used for any purpose other than the purpose described in this subsection and is exempt from disclosure under section 552 of title 5, United States Code, and from the requirements of section 552a of such title. Information disclosure, exemption.

"(7) The Secretary shall include information on the status of the program established under this section and impediments to the effective implementation of the program in the 1984 report required under section 704 of the Act.". 42 USC 904.

PUBLIC PENSION OFFSET

SEC. 337. (a) Subsections (b)(4)(A), (c)(2)(A), (f)(2)(A), and (g)(4)(A) of section 202 of the Social Security Act, and paragraph (7)(A) of section 202(e) of such Act (as redesignated by section 131(a)(3)(A) of this Act), are each amended— 42 USC 402. *Ante*, p. 92.

(1) by striking out "by an amount equal to the amount of any monthly periodic benefit" and inserting in lieu thereof "by an amount equal to two-thirds of the amount of any monthly periodic benefit"; and

(2) by adding at the end thereof the following new sentence: "The amount of the reduction in any benefit under this subparagraph, if not a multiple of $0.10, shall be rounded to the next higher multiple of $0.10.".

(b) The amendments made by subsection (a) of this section shall apply only with respect to monthly insurance benefits payable under title II of the Social Security Act to individuals who initially Effective date. 42 USC 402 note. 42 USC 401.

42 USC 402 and note, 426.

become eligible (as defined in section 334 of Public Law 95-216) for monthly periodic benefits (within the meaning of the provisions amended by subsection (a)) for months after June 1983.

STUDY CONCERNING THE ESTABLISHMENT OF THE SOCIAL SECURITY ADMINISTRATION AS AN INDEPENDENT AGENCY

Joint Study Panel on the Social Security Administration. 42 USC 902 note.

SEC. 338. (a) There is hereby established, under the authority of the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate, a joint study panel to be known as the Joint Study Panel on the Social Security Administration (hereafter in this section referred to as the "Panel"). The duties of the Panel shall be to conduct the study provided for in subsection (c).

Membership.

(b)(1) The Panel shall be composed of 3 members, appointed jointly by the chairmen of the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate and such chairmen shall jointly select one member of the Panel to serve as chairman of the Panel. Members of the Panel shall be chosen, on the basis of their integrity, impartiality, and good judgment, from individuals who, as a result of their training, experience, and attainments, are widely recognized by professionals in the fields of government administration, social insurance, and labor relations as experts in those fields.

Vacancies.

(2) Vacancies in the membership of the Panel shall not affect the power of the remaining members to perform the duties of the Panel and shall be filled in the same manner in which the original appointment was made.

Pay.

(3) Each member of the Panel not otherwise in the employ of the United States Government shall receive the daily equivalent of the annual rate of basic pay payable for level V of the Executive Schedule under section 5316 of title 5, United States Code, for each day during which such member is actually engaged in the performance of the duties of the Panel. Each member of the Panel shall be allowed travel expenses in the same manner as any individual employed intermittently by the Federal Government is allowed travel expenses under section 5703 of title 5, United States Code.

(4) By agreement between the chairmen of the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate, such Committees shall provide the Panel, on a reimbursible basis, office space, clerical personnel, and such supplies and equipment as may be necessary for the Panel to carry out its duties under this section. Subject to such limitations as the chairmen of such Committees may jointly prescribe, the Panel may appoint such additional personnel as the Panel considers necessary and fix the compensation of such personnel as it considers appropriate at an annual rate which does not exceed the rate of basic pay then payable for GS-18 of the General Schedule under section 5332 of title 5, United States Code, and may procure by contract the temporary or intermittent services of clerical personnel and experts or consultants, or organizations thereof.

Appropriation authorization.

(5) There are hereby authorized to be appropriated to the Panel, from amounts in the general fund of the Treasury not otherwise appropriated, such sums as are necessary to carry out the purposes of this section.

(c)(1) The Panel shall undertake, as soon as possible after the date of the enactment of this Act, a thorough study with respect to the

implementation of removing the Social Security Administration from the Department of Health and Human Services and establishing it as an independent agency in the executive branch with its own independent administrative structure, including the possibility of such a structure headed by a board appointed by the President, by and with the advice and consent of the Senate.

(2) The Panel in its study under paragraph (1) shall address, analyze, and report specifically on the following matters:

Matters to be analyzed.

(A) the manner in which the transition to an independent agency would be conducted;

(B) the authorities which would have to be transferred or amended in such a transition;

(C) the program or programs which would be included within the jurisdiction of the new agency;

(D) the legal and other relationships of the Social Security Administration with other organizations which would be required as a result of establishing the Social Security Administration as an independent agency; and

(E) any other details which may be necessary for the development of appropriate legislation to establish the Social Security Administration as an independent agency.

(d) The Panel shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate, not later than April 1, 1984, a report of the findings of the study conducted under subsection (c), together with any recommendations the Panel considers appropriate. The Panel and all authority granted in this section shall expire thirty days after the date of the submission of its report under this section.

Report to congressional committees.

Expiration date.

LIMITATION ON PAYMENTS TO PRISONERS

SEC. 339. (a) Section 202 of the Social Security Act is amended by adding at the end thereof the following new subsection:

42 USC 402.

"(x)(1) Notwithstanding any other provision of this title, no monthly benefits shall be paid under this section or under section 223 to any individual for any month during which such individual is confined in a jail, prison, or other penal institution or correctional facility, pursuant to his conviction of an offense which constituted a felony under applicable law, unless such individual is actively and satisfactorily participating in a rehabilitation program which has been specifically approved for such individual by a court of law and, as determined by the Secretary, is expected to result in such individual being able to engage in substantial gainful activity upon release and within a reasonable time.

42 USC 423.

"(2) Benefits which would be payable to any individual (other than a confined individual to whom benefits are not payable by reason of paragraph (1)) under this title on the basis of the wages and self-employment income of such a confined individual but for the provisions of paragraph (1), shall be payable as though such confined individual were receiving such benefits under this section or section 223.

"(3) Notwithstanding the provisions of section 552a of title 5, United States Code, or any other provision of Federal or State law, any agency of the United States Government or of any State (or political subdivision thereof) shall make available to the Secretary, upon written request, the name and social security account number of any individual who is confined in a jail, prison, or other penal

institution or correctional facility under the jurisdiction of such agency, pursuant to his conviction of an offense which constituted a felony under applicable law, which the Secretary may require to carry out the provisions of this subsection.".

42 USC 423.

(b) Section 223 of such Act is amended by striking out subsection (f).

Effective date.
42 USC 402 note.

(c) The amendments made by subsections (a) and (b) shall apply with respect to monthly benefits payable for months beginning on or after the date of enactment of this Act.

REQUIREMENT OF PREVIOUS UNITED STATES RESIDENCY FOR ALIEN DEPENDENTS AND SURVIVORS LIVING OUTSIDE THE UNITED STATES

42 USC 402.

SEC. 340. (a) Section 202(t) of the Social Security Act is amended—

(1) in the heading, by adding after "United States" the following: "; Residency Requirements for Dependents and Survivors"; and

(2) by adding at the end thereof the following new paragraph:

"(11)(A) Paragraph (2) and subparagraphs (A), (B), (C), and (E) of paragraph (4) shall apply with respect to an individual's monthly benefits under subsection (b), (c), (d), (e), (f), (g), or (h) only if such individual meets the residency requirements of this paragraph with respect to those benefits.

"(B) An individual entitled to benefits under subsection (b), (c), (e), (f), or (g) meets the residency requirements of this paragraph with respect to those benefits only if such individual has resided in the United States, and while so residing bore a spousal relationship to the person on whose wages and self-employment income such entitlement is based, for a total period of not less than 5 years. For purposes of this subparagraph, a period of time for which an individual bears a spousal relationship to another person consists of a period throughout which the individual has been, with respect to such other person, a wife, a husband, a widow, a widower, a divorced wife, a divorced husband, a surviving divorced wife, a surviving divorced husband, a surviving divorced mother, a surviving divorced father, or (as applicable in the course of such period) any two or more of the foregoing.

"(C) An individual entitled to benefits under subsection (d) meets the residency requirements of this paragraph with respect to those benefits only if—

"(i)(I) such individual has resided in the United States (as the child of the person on whose wages and self-employment income such entitlement is based) for a total period of not less than 5 years, or

"(II) the person on whose wages and self-employment income such entitlement is based, and the individual's other parent (within the meaning of subsection (h)(3)), if any, have each resided in the United States for a total period of not less than 5 years (or died while residing in the United States), and

"(ii) in the case of an individual entitled to such benefits as an adopted child, such individual was adopted within the United States by the person on whose wages and self-employment income such entitlement is based, and has lived in the United States with such person and received at least one-half of his or her support from such person for a period (beginning before such individual attained age 18) consisting of—

"(I) the year immediately before the month in which such person became eligible for old-age insurance benefits or disability insurance benefits or died, whichever occurred first, or

"(II) if such person had a period of disability which continued until he or she became entitled to old-age insurance benefits or disability insurance benefits or died, the year immediately before the month in which such period of disability began.

"(D) An individual entitled to benefits under subsection (h) meets the residency requirements of this paragraph with respect to those benefits only if such individual has resided in the United States, and while so residing was a parent (within the meaning of subsection (h)(3)) of the person on whose wages and self-employment income such entitlement is based, for a total period of not less than 5 years.

"(E) This paragraph shall not apply with respect to any individual who is a citizen or resident of a foreign country with which the United States has an agreement in force concluded pursuant to section 233, except to the extent provided by such agreement.". 42 USC 433.

(b) Paragraphs (2) and (4) of section 202(t) of such Act are each amended by striking out "Paragraph (1) shall not apply" and inserting in lieu thereof "Subject to paragraph (11), paragraph (1) shall not apply". 42 USC 402.

(c) The amendments made by this section shall apply with respect to any individual who initially becomes eligible for benefits under section 202 or 223 after December 31, 1984. Effective date. 42 USC 402 note.

ADDITION OF PUBLIC MEMBERS TO TRUST FUND BOARD OF TRUSTEES

SEC. 341. (a) Section 201(c) of the Social Security Act is amended— *Ante*, p. 107.

(1) in the first sentence, by striking out "Secretary of Health, Education, and Welfare, all ex officio" and inserting in lieu thereof "Secretary of Health and Human Services, all ex officio, and of two members of the public (both of whom may not be from the same political party), who shall be nominated by the President for a term of four years and subject to confirmation by the Senate"; and

(2) by adding at the end thereof the following new sentence: "A person serving on the Board of Trustees shall not be considered to be a fiduciary and shall not be personally liable for actions taken in such capacity with respect to the Trust Funds.".

(b) Section 1817(b) of such Act is amended— *Ante*, p. 107.

(1) in the first sentence, by striking out "Secretary of Health, Education, and Welfare, all ex officio" and inserting in lieu thereof "Secretary of Health and Human Services, all ex officio, and of two members of the public (both of whom may not be from the same political party), who shall be nominated by the President for a term of four years and subject to confirmation by the Senate"; and

(2) by adding at the end thereof the following new sentence: "A person serving on the Board of Trustees shall not be considered to be a fiduciary and shall not be personally liable for actions taken in such capacity with respect to the Trust Fund.".

(c) Section 1841(b) of such Act is amended— *Ante*, p. 107.

(1) in the first sentence, by striking out "Secretary of Health, Education, and Welfare, all ex officio" and inserting in lieu

thereof "Secretary of Health and Human Services, all ex officio, and of two members of the public (both of whom may not be from the same political party), who shall be nominated by the President for a term of four years and subject to confirmation by the Senate"; and

(2) by adding at the end thereof the following new sentence: "A person serving on the Board of Trustees shall not be considered to be a fiduciary and shall not be personally liable for actions taken in such capacity with respect to the Trust Fund.".

Effective date.
42 USC 401 note.

(d) The amendments made by this section shall become effective on the date of enactment of this Act.

PAYMENT SCHEDULE BY STATE AND LOCAL GOVERNMENTS

42 USC 418.

SEC. 342. (a) Section 218(e)(1)(A) of the Social Security Act is amended to read as follows:

"(A) that the State will pay to the Secretary of the Treasury—

"(i) on the last day of each calendar month, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 with respect to the period which includes the first fifteen days of such calendar month if the services for which wages were paid in such period to employees covered by the agreement constituted employment as defined in section 3121 of such Code, and

26 USC 3101, 3111.

26 USC 3121.

"(ii) on the fifteenth day of the calendar month following such calendar month, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of such Code with respect to the period beginning with the sixteenth day of such calendar month and ending with the last day of such calendar month if the services for which wages were paid in such period to employees covered by the agreement constituted employment as defined in section 3121 of such Code; and".

Effective date.
42 USC 418 note.

(b) The amendments made by this section shall apply to calendar months beginning after December 31, 1983.

EARNINGS SHARING IMPLEMENTATION REPORT

42 USC 902 note.

SEC. 343. (a) The Secretary of Health and Human Services (hereinafter in this section referred to as the "Secretary") shall develop, in consultation with the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives, proposals for earnings sharing legislation as described in subsection (b). The Secretary shall report such proposals to such committees not later than July 1, 1984. The report and proposals provided to such committees shall—

(1) take into account, discuss, and analyze the impact of earnings sharing on various categories of social security beneficiaries and include recommendations for the implementation of earnings sharing which may be necessary to provide adequate protection for particular classes of beneficiaries;

(2) include specific recommendations with respect to an appropriate and feasible time period or time periods for implementation of such proposals along with recommendations for any transition provisions which may be necessary or appropriate; and

(3) provide cost-impact analyses on each proposal presented.

(b) For the purposes of subsection (a), the term "earnings sharing" refers to proposals that the combined earnings of a husband and wife during the period of their marriage shall be divided equally and shared between them for social security benefit purposes.

(c) In preparing the report and proposals required in subsection (a), the Secretary shall include consideration and analysis of the earnings sharing proposals contained in (1) S. 3, 98th Congress, 1st Session, (2) H.R. 1513, 97th Congress, 1st Session, and (3) the earnings sharing option described in the report entitled "Social Security and the Changing Roles of Men and Women", submitted to the Congress pursuant to Public Law 95-216, the Social Security Amendments of 1977.

42 USC 1305 note.

(d) In carrying out subsections (a), (b), and (c), the Secretary shall consult with the Director of the Congressional Budget Office. Not later than 30 days after the Secretary submits the report required in subsection (a), the Director of the Congressional Budget Office shall submit a report to the committees identified in such subsection on the methodologies, recommendations, and analyses used in the Secretary's report.

VETERANS' ADMINISTRATION REORGANIZATION

SEC. 344. The requirements of section 210(b)(2)(A) of title 38, United States Code, shall not apply to the planned administrative reorganization at the Veterans' Administration Los Angeles Data Processing Center involving the transfer of 25 full-time equivalent employees from the Office of Data Management and Technology to the Department of Medicine and Surgery of the Veterans' Administration.

SOCIAL SECURITY CARDS

SEC. 345. (a) Section 205(c)(2) of the Social Security Act is amended by adding at the end thereof the following new subparagraph:

42 USC 405.

"(D) The Secretary shall issue a social security card to each individual at the time of the issuance of a social security account number to such individual. The social security card shall be made of banknote paper, and (to the maximum extent practicable) shall be a card which cannot be counterfeited.".

(b) The amendment made by this section shall apply with respect to all new and replacement social security cards issued more than 193 days after the date of the enactment of this Act.

Effective date. 42 USC 405 note.

(c) Within 90 days after the date of the enactment of this Act the Secretary of Health and Human Services shall report to the Congress on his plans for implementing the amendment made by this section.

Report to Congress.

BUDGETARY TREATMENT OF TRUST FUND OPERATIONS

SEC. 346. (a)(1) Title VII of the Social Security Act (as amended by section 143 of this Act) is further amended by adding at the end thereof the following new section:

Ante, p. 102.

"BUDGETARY TREATMENT OF TRUST FUND OPERATIONS

"SEC. 710. The disbursements of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust

42 USC 911.

Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund shall be treated as a separate major functional category in the budget of the United States Government as submitted by the President and in the congressional budget, and the receipts of such Trust Funds, including the taxes imposed under sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954, shall be set forth separately in such budgets.".

26 USC 1401, 3101, 3111.

Effective date. 42 USC 911 note.

(2) The amendment made by paragraph (1) shall apply with respect to fiscal years beginning on or after October 1, 1984, and ending on or before September 30, 1992, except that such amendment shall apply with respect to the fiscal year beginning on October 1, 1983, to the extent it relates to the congressional budget.

(b) Effective for fiscal years beginning on or after October 1, 1992, section 710 of such Act (as added by subsection (a) of this section) is amended to read as follows:

Ante, p. 137.

"BUDGETARY TREATMENT OF TRUST FUND OPERATIONS

"SEC. 710. (a) The receipts and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund and the taxes imposed under sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954 shall not be included in the totals of the budget of the United States Government as submitted by the President or of the congressional budget and shall be exempt from any general budget limitation imposed by statute on expenditures and net lending (budget outlays) of the United States Government.

"(b) The disbursements of the Federal Supplementary Medical Insurance Trust Fund shall be treated as a separate major functional category in the budget of the United States Government as submitted by the President and in the congressional budget, and the receipts of such Trust Fund shall be set forth separately in such budgets.".

LIBERALIZATION OF EARNINGS TEST

42 USC 403.

SEC. 347. (a) Section 203(f)(3) of the Social Security Act is amended by striking out "50 per centum of his earnings for such year in excess of the product of the applicable exempt amount as determined under paragraph (8)" and inserting in lieu thereof the following: "33⅓ percent of his earnings for such year in excess of the product of the applicable exempt amount as determined under paragraph (8) in the case of an individual who has attained retirement age (as defined in section 216(l)) before the close of such taxable year, or 50 percent of his earnings for such year in excess of such product in the case of any other individual".

42 USC 416.

Effective date. 42 USC 403 note.

(b) The amendment made by subsection (a) shall apply only with respect to taxable years beginning after December 1989, and only in the case of individuals who have attained retirement age (as defined in section 216(l) of the Social Security Act).

TITLE IV—SUPPLEMENTAL SECURITY INCOME BENEFITS

INCREASE IN FEDERAL SSI BENEFIT STANDARD

42 USC 1382f.

SEC. 401. (a)(1) Section 1617 of the Social Security Act is amended by adding at the end thereof the following new subsection:

"(c) Effective July 1, 1983—

"(1) each of the dollar amounts in effect under subsections (a)(1)(A) and (b)(1) of section 1611, as previously increased under this section, shall be increased by $240 (and the dollar amount in effect under subsection (a)(1)(A) of section 211 of Public Law 93-66, as previously so increased, shall be increased by $120); and

42 USC 1382.

87 Stat. 154.

"(2) each of the dollar amounts in effect under subsections (a)(2)(A) and (b)(2) of section 1611, as previously increased under this section, shall be increased by $360.".

(2) Section 1617(b) of such Act is amended by striking out "this section" and inserting in lieu thereof "subsection (a) of this section".

42 USC 1382f.

(b) Section 1617(a)(2) of such Act is amended by inserting ", or, if greater (in any case where the increase under title II was determined on the basis of the wage increase percentage rather than the CPI increase percentage), the percentage by which benefit amounts under title II would be increased for such month if the increase had been determined on the basis of the CPI increase percentage," after "are increased for such month".

42 USC 401.

ADJUSTMENTS IN FEDERAL SSI PASS-THROUGH PROVISIONS

SEC. 402. Section 1618 of the Social Security Act is amended by redesignating the subsection (c) which was added by Public Law 97-377 as subsection (d), and by adding at the end thereof the following new subsection:

96 Stat. 1917.
42 USC 1382g.

"(e)(1) For any particular month after March 1983, a State which is not treated as meeting the requirements imposed by paragraph (4) of subsection (a) by reason of subsection (b) shall be treated as meeting such requirements if and only if—

"(A) the combined level of its supplementary payments (to recipients of the type involved) and the amounts payable (to or on behalf of such recipients) under section 1611(b) of this Act and section 211(a)(1)(A) of Public Law 93-66, for that particular month,

is not less than—

"(B) the combined level of its supplementary payments (to recipients of the type involved) and the amounts payable (to or on behalf of such recipients) under section 1611(b) of this Act and section 211(a)(1)(A) of Public Law 93-66, for March 1983, increased by the amount of all cost-of-living adjustments under section 1617 (and any other benefit increases under this title) which have occurred after March 1983 and before that particular month.

"(2) In determining the amount of any increase in the combined level involved under paragraph (1)(B) of this subsection, any portion of such amount which would otherwise be attributable to the increase under section 1617(c) shall be deemed instead to be equal to the amount of the cost-of-living adjustment which would have occurred in July 1983 (without regard to the 3-percent limitation contained in section 215(i)(1)(B)) if section 111 of the Social Security Amendments of 1983 had not been enacted.".

42 USC 415.
Ante, p. 72.

SSI ELIGIBILITY FOR TEMPORARY RESIDENTS OF EMERGENCY SHELTERS FOR THE HOMELESS

42 USC 1382.

SEC. 403. (a) Section 1611(e)(1) of the Social Security Act is amended—

(1) by striking out "subparagraph (B) and (C)" in subparagraph (A) and inserting in lieu thereof "subparagraphs (B), (C), and (D)"; and

(2) by adding at the end thereof the following new subparagraph:

"(D) A person may be an eligible individual or eligible spouse for purposes of this title with respect to any month throughout which he is a resident of a public emergency shelter for the homeless (as defined in regulations which shall be prescribed by the Secretary); except that no person shall be an eligible individual or eligible spouse by reason of this subparagraph more than three months in any 12-month period.".

Effective date. 42 USC 1382 note.

(b) The amendments made by subsection (a) shall be effective with respect to months after the month in which this Act is enacted.

DISREGARDING OF EMERGENCY AND OTHER IN-KIND ASSISTANCE PROVIDED BY NONPROFIT ORGANIZATIONS

42 USC 1382a.

SEC. 404. (a) Section 1612(b)(13) of the Social Security Act is amended by striking out "any assistance received" and all that follows down through "(B)" and inserting in lieu thereof the following: "any support or maintenance assistance furnished to or on behalf of such individual (and spouse if any) which (as determined under regulations of the Secretary by such State agency as the chief executive officer of the State may designate) is based on need for such support or maintenance, including assistance received to assist in meeting the costs of home energy (including both heating and cooling), and which".

42 USC 602.

(b) Section 402(a)(36) of such Act is amended by striking out "shall not include as income" and all that follows down through "(B)" and inserting in lieu thereof the following: "shall not include as income any support or maintenance assistance furnished to or on behalf of the family which (as determined under regulations of the Secretary by such State agency as the chief executive officer of the State may designate) is based on need for such support and maintenance, including assistance received to assist in meeting the costs of home energy (including both heating and cooling), and which".

Effective date. 42 USC 602 note.

(c) The amendments made by this section shall be effective with respect to months which begin after the month in which this Act is enacted and end before October 1, 1984.

NOTIFICATION REGARDING SSI

42 USC 1382 note. 42 USC 401. 42 USC 1381.

SEC. 405. Prior to July 1, 1984, the Secretary of Health and Human Services shall notify all elderly recipients of benefits under title II of the Social Security Act who may be eligible for supplemental security income benefits under title XVI of such Act of the availability of the supplemental security income program, and shall encourage such recipients to contact the Social Security district office. Such notification shall also be made to all recipients prior to attainment of age 65, with the notification made with respect to eligibility for supplementary medical insurance.

TITLE V—UNEMPLOYMENT COMPENSATION PROVISIONS

PART A—FEDERAL SUPPLEMENTAL COMPENSATION

EXTENSION OF PROGRAM

SEC. 501. (a) Paragraph (2) of section 602(f) of the Federal Supplemental Compensation Act of 1982 is amended by striking out "March 31, 1983" and inserting in lieu thereof "September 30, 1983". 96 Stat. 702. 26 USC 3304 note.

(b) Section 605(2) of such Act is amended by striking out "April 1, 1983" and inserting in lieu thereof "October 1, 1983". 96 Stat. 705. 26 USC 3304 note.

NUMBER OF WEEKS FOR WHICH COMPENSATION PAYABLE

SEC. 502. (a) Subsection (e) of section 602 of the Federal Supplemental Compensation Act of 1982 is amended by redesignating paragraph (3) as paragraph (4) and by striking out paragraph (2) and inserting in lieu thereof the following new paragraphs: 96 Stat. 702. 26 USC 3304 note.

"(2)(A) In the case of any account from which Federal supplemental compensation was first payable to an individual for a week beginning after March 31, 1983, the amount established in such account shall be equal to the lesser of—

"(i) 55 per centum of the total amount of regular compensation (including dependents' allowances) payable to the individual with respect to the benefit year (as determined under the State law) on the basis of which he most recently received regular compensation, or

"(ii) the applicable limit determined under the following table times his average weekly benefit amount for his benefit year:

"In the case of weeks during a:	The applicable limit is:
6-percent period	14
5-percent period	12
4-percent period	10
Low-unemployment period	8

"(B) In the case of any State whose applicable limit, as determined under clause (ii) of subparagraph (A) for the first week beginning after March 27, 1983, and after the date of the enactment of part A of title V of the Social Security Amendments of 1983, would be more than 4 weeks lower than the number of weeks applicable to such State under this paragraph as in effect for the week beginning March 27, 1983, the applicable limit for such State for that week and any succeeding week shall not be lower than 4 less than the number so applicable to such State for the week beginning March 27, 1983. *Supra.*

"(C) In the case of any account from which Federal supplemental compensation was payable to an individual for a week beginning before April 1, 1983, the amount established in such account shall be equal to the lesser of the subparagraph (A) entitlement or the sum of—

"(i) the subparagraph (A) entitlement reduced (but not below zero) by the aggregate amount of Federal supplemental compensation paid to such individual for weeks beginning before April 1, 1983, plus

"(ii) such individual's additional entitlement.

"(D) For purposes of subparagraph (C) and this subparagraph—

Definitions.

"(i) The term 'subparagraph (A) entitlement' means the amount which would have been established in the account if subparagraph (A) had applied to such account.

"(ii) The term 'additional entitlement' means the lesser of—

"(I) three-fourths of the subparagraph (A) entitlement, or

"(II) the applicable limit determined under the following table times the individual's average weekly benefit amount for his benefit year:

"In the case of weeks during a:	The applicable limit is:
6-percent period	10
5-percent period	8
4-percent period	8
Low-employment period	6

"(E) Except as provided in subparagraph (C)(i), for purposes of determining the amount of Federal supplemental compensation payable for weeks beginning after March 31, 1983, from an account described in subparagraph (C), no reduction in such account shall be made by reason of any Federal supplemental compensation paid to the individual for weeks beginning before April 1, 1983.

Definitions.

"(3)(A) For purposes of this subsection, the terms '6-percent period', '5-percent period', '4 percent period', and 'low-unemployment period' mean, with respect to any State, the period which—

"(i) begins with the 3d week after the 1st week in which the rate of insured unemployment in the State for the period consisting of such week and the immediately preceding 12 weeks falls in the applicable range, and

"(ii) ends with the 3d week after the 1st week in which the rate of insured unemployment for the period consisting of such week and the immediately preceding 12 weeks does not fall within the applicable range.

"(B) For purposes of subparagraph (A), the applicable range is as follows:

"In the case of a:	The applicable range is:
6-percent period	A rate equal to or exceeding 6 percent.
5-percent period	A rate equal to or exceeding 5 percent but less than 6 percent.
4-percent period	A rate equal to or exceeding 4 percent but less than 5 percent.
Low-employment period	A rate less than 4 percent.

"(C) No 6-percent period, 5-percent period, or 4-percent period, as the case may be, shall last for a period of less than 4 weeks unless the State enters a period with a higher percentage designation.

"(D) For purposes of this subsection—

"(i) The rate of insured unemployment for any period shall be determined in the same manner as determined for purposes of section 203 of the Federal-State Extended Unemployment Compensation Act of 1970.

26 USC 3304 note.

"(ii) The amount of an individual's average weekly benefit amount shall be determined in the same manner as determined for purposes of section 202(b)(1)(C) of such Act."

26 USC 3304 note.

96 Stat. 702.

26 USC 3304 note.

(b)(1) Section 602(f)(2) of such Act is amended by inserting before the period at the end thereof the following: "; except that in the case of any individual who received such compensation for the week preceding the last week beginning after such date, such compensation shall be payable to such individual for weeks beginning after

such date, but the total amount of such compensation payable for such weeks shall be limited to 50 percent of the total amount which would otherwise be payable for such weeks".

(2) Section 605(2) of such Act is amended by inserting before the semicolon the following: "(except as otherwise provided in section 602(f)(2))". 96 Stat. 705. 26 USC 3304 note.

(c) Paragraph (3) of section 602(d) of the Federal Supplemental Compensation Act of 1982 is amended to read as follows: 96 Stat. 702. 26 USC 3304 note.

"(3) the maximum amount of Federal supplemental compensation payable to any individual for whom an account is established under subsection (e) shall not exceed the lesser of (A) the amount established in such account for such individual, or (B) in the case of an individual filing a claim under the interstate benefit payment plan for Federal supplemental compensation, the amount which would have been established in such account if the amount established in such account were determined by reference to the applicable limit under subparagraph (A)(ii) or (D)(ii) of subsection (e)(2) applicable in the State in which the individual is filing such interstate claim under the interstate benefit payment plan for the week in which he is filing such claim."

EFFECTIVE DATE

SEC. 503. (a) The amendments made by this part shall apply to weeks beginning after March 31, 1983. 26 USC 3304 note.

(b) In the case of any eligible individual—

(1) to whom any Federal supplemental compensation was payable for any week beginning before April 1, 1983, and

(2) who exhausted his rights to such compensation (by reason of the payment of all the amount in his Federal supplemental compensation account) before the first week beginning after March 31, 1983,

such individual's eligibility for additional weeks of compensation by reason of the amendments made by this part shall not be limited or terminated by reason of any event, or failure to meet any requirement of law relating to eligibility for unemployment compensation, occurring after the date of such exhaustion of rights and before April 1, 1983 (and the period after such exhaustion and before April 1, 1983, shall not be counted for purposes of determining the expiration of the two years following the end of his benefit year for purposes of section 602(b) of the Federal Supplemental Compensation Act of 1982).

(c) The Secretary of Labor shall, at the earliest practicable date after the date of the enactment of this Act, propose to each State with which he has in effect an agreement under section 602 of the Federal Supplemental Compensation Act of 1982 a modification of such agreement designed to provide for the payment of Federal supplemental compensation under such Act in accordance with the amendments made by this part. Notwithstanding any other provision of law, if any State fails or refuses, within the 3-week period beginning on the date the Secretary of Labor proposed such a modification to such State, to enter into such a modification of such agreement, the Secretary of Labor shall terminate such agreement effective with the end of the last week which ends on or before such 3-week period. State modifications.

TRAINING

96 Stat. 702.
26 USC 3304 note.

SEC. 504. Section 602 of the Federal Supplemental Compensation Act of 1982 is amended by adding at the end thereof the following new subsection:

"(g) The payment of Federal supplemental compensation shall not be denied to any recipient (who submits documentation prescribed by the Secretary) for any week because the recipient is in training or attending an accredited educational institution on a substantially full-time basis, or because of the application of State law to any such recipient relating to the availability for work, the active search for work, or the refusal to accept work on account of such training or attendance, unless the State agency determines that such training or attendance will not improve the opportunities for employment of the recipient.".

COORDINATION WITH TRADE READJUSTMENT PROGRAM

96 Stat. 702.
26 USC 3304 note.

SEC. 505. Subsection (e) of section 602 of the Federal Supplemental Compensation Act of 1982 is amended by adding at the end thereof the following new paragraph:

"(5)(A) Except as provided in subparagraph (B), the maximum amount of Federal supplemental compensation payable to an individual shall not be reduced by reason of any trade readjustment allowance to which the individual was entitled under the Trade Act of 1974.

19 USC 2101.

"(B) If an individual received any trade readjustment allowance under the Trade Act of 1974 in respect of any benefit year, the maximum amount of Federal supplemental compensation payable under this subtitle in respect of such benefit year shall be reduced (but not below zero) so that (to the extent possible by making such a reduction) the aggregate amount of—

"(i) regular compensation,

"(ii) extended compensation,

"(iii) trade readjustment allowances, and

"(iv) Federal supplemental compensation,

payable in respect of such benefit year does not exceed the aggregate amount which would have been so payable had the individual not been entitled to any trade readjustment allowance."

PART B—PROVISIONS RELATING TO INTEREST AND CREDIT REDUCTIONS

DEFERRAL OF INTEREST

42 USC 1322.

SEC. 511. (a) Section 1202(b) of the Social Security Act is amended by adding at the end thereof the following new paragraphs:

"(8)(A) With respect to interest due under this section on September 30 of 1983, 1984, or 1985 (other than interest previously deferred under paragraph (3)(C)), a State may pay 80 percent of such interest in four annual installments of at least 20 percent beginning with the year after the year in which it is otherwise due, if such State meets the criteria of subparagraph (B). No interest shall accrue on such deferred interest.

"(B) To meet the criteria of this subparagraph a State must—

"(i) have taken no action since October 1, 1982, which would reduce its net unemployment tax effort or the net solvency of its

unemployment system (as determined for purposes of section 3302(f) of the Internal Revenue Code of 1954); and 26 USC 3302.

"(ii)(I) have taken an action (as certified by the Secretary of Labor) after March 31, 1982, which would have increased revenue liabilities and decreased benefits under the State's unemployment compensation system (hereinafter referred to as a 'solvency effort') by a combined total of the applicable percentage (as compared to such revenues and benefits as would have been in effect without such State action) for the calendar year for which the deferral is requested; or

"(II) have had, for taxable year 1982, an average unemployment tax rate which was equal to or greater than 2.0 percent of the total of the wages (as determined without any limitation on amount) attributable to such State subject to contribution under the State unemployment compensation law with respect to such taxable year.

In the case of the first year for which there is a deferral (over a 4-year period) of the interest otherwise payable for such year, the applicable percentage shall be 25 percent. In the case of the second such year, the applicable percentage shall be 35 percent. In the case of the third such year, the applicable percentage shall be 50 percent.

"(C)(i) The base year is the first year for which deferral under this provision is requested and subsequently granted. The Secretary of Labor shall estimate the unemployment rate for the base year. To determine whether a State meets the requirements of subparagraph (B)(ii)(I), the Secretary of Labor shall determine the percentage by which the benefits and taxes in the base year with the application of the action referred to in subparagraph (B)(ii)(I) are lower or greater, as the case may be, than such benefits and taxes would have been without the application of such action. In making this determination, the Secretary shall deem the application of the action referred to in subparagraph (B)(ii)(I) to have been effective for the base year to the same extent as such action is effective for the year following the year for which the deferral is sought. Once a deferral is approved under clause (ii)(I) of subparagraph (B) a State must continue to maintain its solvency effort. Failure to do so shall result in the State being required to make immediate payment of all deferred interest.

"(ii) Increases in the taxable wage base from $6,000 to $7,000 or increases after 1984 in the maximum tax rate to 5.4 percent shall not be counted for purposes of meeting the requirement of subparagraph (B).

"(D) In the case of a State which produces a solvency effort of 50 percent, 80 percent, and 90 percent rather than the 25 percent, 35 percent, and 50 percent required under subparagraph (B), the interest shall be computed at an interest rate which is 1 percentage point less than the otherwise applicable interest rate.

"(9) Any interest otherwise due from a State on September 30 of a calendar year after 1982 may be deferred (and no interest shall accrue on such deferred interest) for a grace period of not to exceed 9 months if, for the most recent 12-month period for which data are available before the date such interest is otherwise due, the State had an average total unemployment rate of 13.5 percent or greater."

(b) Section 1202(b)(7) of such Act is amended by striking out ", and before January 1, 1988". 42 USC 1322.

42 USC 1322.

(c) Section 1202(b)(3)(C)(i) of the Social Security Act is amended by striking the matter that follows clause (II) and inserting "No interest shall accrue on such deferred interest."

CAP ON CREDIT REDUCTION

26 USC 3302.

SEC. 512. (a)(1) Section 3302(f) of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new paragraph:

"(8) PARTIAL LIMITATION.—

"(A) In the case of a State which would meet the requirements of this subsection for a taxable year prior to 1987 but for its failure to meet one of the requirements contained in subparagraph (C) or (D) of paragraph (2), the reduction under subsection (c)(2) in credits otherwise applicable to taxpayers in such State for such taxable year and each subsequent year (in a period of consecutive years for each of which a credit reduction is in effect for taxpayers in such State) shall be reduced by 0.1 percentage point.

"(B) In the case of a State which does not meet the requirements of paragraph (2) but meets the requirements of subparagraphs (A) and (B) of paragraph (2) and which also meets the requirements of section 1202(b)(8)(B) of the Social Security Act with respect to such taxable year, the reduction under subsection (c)(2) in credits otherwise applicable to taxpayers in such State for such taxable year and each subsequent year (in a period of consecutive years for each of which a credit reduction is in effect for taxpayers in such State) shall be further reduced by an additional 0.1 percentage point.

Ante, p. 144.

"(C) In no case shall the application of subparagraphs (A) and (B) reduce the credit reduction otherwise applicable under subsection (c)(2) below the limitation under paragraph (1)."

Effective date. 26 USC 3302 note.

(2) The amendment made by paragraph (1) shall apply with respect to taxable year 1983 and taxable years thereafter.

(b) Section 3302(f)(1) of such Code is amended by striking out "beginning before January 1, 1988,".

AVERAGE EMPLOYER CONTRIBUTION RATE

26 USC 3302.

SEC. 513. (a) Section 3302(d)(4)(B) of the Internal Revenue Code of 1954 is amended to read as follows:

"(B)(i) for purposes of subparagraph (B) of subsection (c)(2), the total of the wages (as determined without any limitation on amount) attributable to such State subject to contributions under this chapter with respect to such calendar year, and

"(ii) for purposes of subparagraph (C) of subsection (c)(2), the total of the remuneration subject to contributions under the State unemployment compensation law with respect to such calendar year."

(b) Section 3302(c)(2)(B)(i) of such Code is amended by striking out "2.7" and inserting in lieu thereof "2.7 multiplied by a fraction, the numerator of which is the wage base under this chapter and the denominator of which is the estimated United States average

annual wage in covered employment for the calendar year in which the determination is to be made".

(c) Section 3302(c)(2)(B) of such Code is amended by inserting after "(if any)" the following: ", multiplied by a fraction, the numerator of which is the State's average annual wage in covered employment for the calendar year in which the determination is made and the determination of which is the wage base under this chapter,". 26 USC 3302.

(d) The amendments made by this section shall be effective for taxable year 1983 and taxable years thereafter. Effective date. 26 USC 3302 note.

DATE FOR PAYMENT OF INTEREST

SEC. 514. Section 1202(b)(3)(A) of the Social Security Act is amended by striking out "not later than" and inserting in lieu thereof "prior to". 42 USC 1322.

PENALTY FOR FAILURE TO PAY INTEREST

SEC. 515. (a) Section 303(c) of the Social Security Act is amended by striking out "or" at the end of paragraph (1), striking out the period at the end of paragraph (2) and inserting "; or", and adding at the end thereof the following new paragraph: 42 USC 503.

"(3) that any interest required to be paid on advances under title XII of this Act has not been paid by the date on which such interest is required to be paid or has been paid directly or indirectly (by an equivalent reduction in State unemployment taxes or otherwise) by such State from amounts in such State's unemployment fund, until such interest is properly paid.".

(b) Section 3304(a) of the Internal Revenue Code of 1954 (relating to certification of State unemployment compensation laws) is amended by redesignating paragraph (17) as paragraph (18) and by inserting after paragraph (16) the following new paragraph: 26 USC 3304.

"(17) any interest required to be paid on advances under title XII of the Social Security Act shall be paid in a timely manner and shall not be paid, directly or indirectly (by an equivalent reduction in State unemployment taxes or otherwise) by such State from amounts in such State's unemployment fund; and".

PART C—MISCELLANEOUS PROVISIONS

TREATMENT OF EMPLOYEES PROVIDING SERVICES TO EDUCATIONAL INSTITUTIONS

SEC. 521. (a)(1) Section 3304(a)(6)(A) of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new clause: 26 USC 3304.

"(v) with respect to services to which section 3309(a)(1) applies, if such services are provided to or on behalf of an educational institution, compensation may be denied under the same circumstances as described in clauses (i) through (iv), and".

(2) Clauses (ii)(I), (iii), and (iv) of such section are each amended by striking out "may be denied" and inserting in lieu thereof "shall be denied".

(b)(1) Except as provided in paragraph (2), the amendments made by this section shall apply in the case of compensation paid for weeks beginning on or after April 1, 1984. Effective date. 26 USC 3304 note.

(2) In the case of a State with respect to which the Secretary of Labor has determined that State legislation is required in order to comply with the amendment made by this section, the amendment made by this section shall apply in the case of compensation paid for weeks which begin on or after April 1, 1984, and after the end of the first session of the State legislature which begins after the date of the enactment of this Act, or which began prior to the date of the enactment of this Act and remained in session for at least twenty-five calendar days after such date of enactment. For purposes of the preceding sentence, the term "session" means a regular, special, budget, or other session of a State legislature.

Session.

EXTENDED BENEFITS FOR INDIVDUALS WHO ARE HOSPITALIZED OR ON JURY DUTY

26 USC 3304 note.

SEC. 522. (a) Clause (ii) of paragraph (3)(A) of section 202(a) of the Federal-State Extended Unemployment Compensation Act of 1970 is amended to read as follows:

"(ii) during which he fails to actively engage in seeking work, unless such individual is not actively engaged in seeking work because such individual is, as determined in accordance with State law—

"(I) before any court of the United States or any State pursuant to a lawfully issued summons to appear for jury duty (as such term may be defined by the Secretary of Labor), or

"(II) hospitalized for treatment of an emergency or a life-threatening condition (as such term may be defined by such Secretary),

if such exemptions in clauses (I) and (II) apply to recipients of regular benefits, and the State chooses to apply such exemptions for recipients of extended benefits.".

Effective date. 26 USC 3304 note.

(b) The amendment made by this section shall become effective on the date of the enactment of this Act.

VOLUNTARY HEALTH INSURANCE PROGRAMS PERMITTED

26 USC 3304.

SEC. 523. (a) AMENDMENT OF INTERNAL REVENUE CODE OF 1954.—Paragraph (4) of section 3304(a) of the Internal Revenue Code of 1954 (relating to requirements for approval of State unemployment compensation laws) is amended by striking out "and" at the end of subparagraph (A), by adding "and" at the end of subparagraph (B), and by adding after subparagraph (B) the following new subparagraph:

"(C) nothing in this paragraph shall be construed to prohibit deducting an amount from unemployment compensation otherwise payable to an individual and using the amount so deducted to pay for health insurance if the individual elected to have such deduction made and such deduction was made under a program approved by the Secretary of Labor;".

42 USC 503.

(b) AMENDMENT OF SOCIAL SECURITY ACT.—Paragraph (5) of section 303(a) of the Social Security Act is amended by striking out "; and" at the end thereof and inserting in lieu thereof "*Provided further*, That nothing in this paragraph shall be construed to prohibit deducting an amount from unemployment compensation otherwise payable to an individual and using the amount so deducted to

pay for health insurance if the individual elected to have such deduction made and such deduction was made under a program approved by the Secretary of Labor; and".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act. 26 USC 3304 note.

TREATMENT OF CERTAIN ORGANIZATIONS RETROACTIVELY DETERMINED TO BE DESCRIBED IN SECTION 501(C)(3) OF THE INTERNAL REVENUE CODE OF 1954

SEC. 524. If— 26 USC 3303 note.

(1) an organization did not make an election to make payments (in lieu of contributions) as provided in section 3309(a)(2) of the Internal Revenue Code of 1954 before April 1, 1972, because such organization, as of such date, was treated as an organization described in section 501(c)(4) of such Code, 26 USC 3309. 26 USC 501.

(2) the Internal Revenue Service subsequently determined that such organization was described in section 501(c)(3) of such Code, and

(3) such organization made such an election before the earlier of—

(A) the date 18 months after such election was first available to it under the State law, or

(B) January 1, 1984,

then section 3303(f) of such Code shall be applied with respect to such organization as if it did not contain the requirement that the election be made before April 1, 1972, and by substituting "January 1, 1982" for "January 1, 1969". 26 USC 3303.

TITLE VI—PROSPECTIVE PAYMENTS FOR MEDICARE INPATIENT HOSPITAL SERVICES

MEDICARE PAYMENTS FOR INPATIENT HOSPITAL SERVICES ON THE BASIS OF PROSPECTIVE RATES

SEC. 601. (a)(1) Subsection (a)(1) of section 1886 of the Social Security Act is amended by adding at the end the following new subparagraph: 96 Stat. 331. 42 USC 1395ww.

"(D) Subparagraph (A) shall not apply to cost reporting periods beginning on or after October 1, 1983.".

(2) Subsection (a)(4) of such section is amended by adding at the end the following new sentence: "Such term does not include costs of approved educational activities, or, with respect to costs incurred in cost reporting periods beginning prior to October 1, 1986, capital-related costs, as defined by the Secretary.".

(3) It is the intent of Congress that, in considering the implementation of a system for including capital-related costs under a prospectively determined payment rate for inpatient hospital services, costs related to capital projects for which expenditures are obligated on or after the effective date of the implementation of such a system, may or may not be distinguished and treated differently from costs of projects for which expenditures were obligated before such date. 42 USC 1395ww note.

(b) Section 1886(b) of such Act is amended—

(1) by striking out "Notwithstanding sections 1814(b), but subject to the provisions of sections" in paragraph (1) and 42 USC 1395f.

inserting in lieu thereof "Notwithstanding section 1814(b) but subject to the provisions of section";

(2) by inserting "(other than a subsection (d) hospital, as defined in subsection (d)(1)(B))" in the matter before subparagraph (A) of paragraph (1) after "of a hospital";

(3) by inserting, in the matter in paragraph (1) following subparagraph (B), "(other than on the basis of a DRG prospective payment rate determined under subsection (d))" after "payable under this title";

(4) by repealing paragraph (2);

(5) by inserting "and subsection (d) and except as provided in subsection (e)" in paragraph (3)(B) after "subparagraph (A)";

(6) by inserting "or fiscal year" after "cost reporting period" each place it appears in paragraph (3)(B);

(7) by inserting "before the beginning of the period or year" in paragraph (3)(B) after "estimated by the Secretary";

(8) by striking out "exceeds" in paragraph (3)(B) and inserting in lieu thereof "will exceed"; and

(9) by repealing paragraph (6), effective with respect to cost reporting periods beginning on or after October 1, 1982, and by inserting after paragraph (5), effective with respect to cost reporting periods beginning on or after October 1, 1983, the following new paragraph (6):

26 USC 3111.

"(6) In the case of any hospital which becomes subject to the taxes under section 3111 of the Internal Revenue Code of 1954, with respect to any or all of its employees, for part or all of a cost reporting period, and was not subject to such taxes with respect to any or all of its employees for all or part of the 12-month base cost reporting period referred to in subsection (b)(3)(A)(i), the Secretary shall provide for an adjustment by increasing the base period amount described in such subsection for such hospital by an amount equal to the amount of such taxes which would have been paid or accrued by such hospital for such base period if such hospital had been subject to such taxes for all of such base period with respect to all its employees, minus the amount of any such taxes actually paid or accrued for such base period.".

(c)(1) Subsection (c)(1) of such section is amended—

(A) by striking out "and" at the end of subparagraph (B),

(B) by striking out the period at the end of subparagraph (C) and inserting in lieu thereof a semicolon, and

(C) by adding at the end the following:

42 USC 1395mm.

"(D) the Secretary determines that the system will not preclude an eligible organization (as defined in section 1876(b)) from negotiating directly with hospitals with respect to the organization's rate of payment for inpatient hospital services; and

42 USC 1395cc.

42 USC 1395y.

"(E) the Secretary determines that the system requires hospitals to meet the requirement of section 1866(a)(1)(G) and the system provides for the exclusion of certain costs in accordance with section 1862(a)(14) (except for such waivers thereof as the Secretary provides by regulation).

The Secretary cannot deny the application of a State under this subsection on the ground that the State's hospital reimbursement control system is based on a payment methodology other than on the basis of a diagnosis-related group or on the ground that the amount of payments made under this title under such system must be less than the amount of payments which would otherwise have

been made under this title not using such system. If the Secretary determines that the conditions described in subparagraph (C) are based on maintaining payment amounts at no more than a specified percentage increase above the payment amounts in a base period, the State has the option of applying such test (for inpatient hospital services under part A) on an aggregate payment basis or on the basis of the amount of payment per inpatient discharge or admission. If the Secretary determines that the conditions described in subparagraph (C) are based on maintaining aggregate payment amounts below a national average percentage increase in total payments under part A for inpatient hospital services, the Secretary cannot deny the application of a State under this subsection on the ground that the State's rate of increase in such payments for such services must be less than such national average rate of increase."

(2) Subsection (c)(3) of such section is amended—

(A) by striking out "requirement of paragraph (1)(A)" and inserting in lieu thereof "requirements of subparagraphs (A), (D), and (E) of paragraph (1) and, if applicable, the requirements of paragraph (5),", and

(B) by inserting "(or, if applicable, in paragraph (5))" in subparagraph (B) after "paragraph (1)".

(3) Subsection (c) of such section is further amended by adding at the end the following new paragraphs:

"(4) The Secretary shall approve the request of a State under paragraph (1) with respect to a hospital reimbursement control system if—

"(A) the requirements of subparagraphs (A), (B), (C), and (D) of paragraph (1) have been met with respect to the system, and

"(B) with respect to that system a waiver of certain requirements of title XVIII of the Social Security Act has been approved on or before (and which is in effect as of) the date of the enactment of the Social Security Amendments of 1983, pursuant to section 402(a) of the Social Security Amendments of 1967 or section 222(a) of the Social Security Amendments of 1972.

42 USC 1395.

42 USC 1395b-1.

42 USC 1395b-1 note.

With respect to a State system described in this paragraph, the Secretary shall judge the effectiveness of such system on the basis of its rate of increase or inflation in inpatient hospital payments for individuals under this title, as compared to the national rate of increase or inflation for such payments, with the State retaining the option to have the test applied on the basis of the aggregate payment or payments per inpatient admission or discharge during the three cost reporting periods beginning on or after October 1, 1983, after which such test, at the option of the Secretary, shall no longer apply, and such State systems shall be treated in the same manner as under other waivers.

"(5) The Secretary shall approve the request of a State under paragraph (1) with respect to a hospital reimbursement control system if—

"(A) the requirements of subparagraphs (A), (B), (C), (D), and (E) of paragraph (1) have been met with respect to the system;

"(B) the Secretary determines that the system—

"(i) is operated directly by the State or by an entity designated pursuant to State law,

"(ii) provides for payment of hospitals covered under the system under a methodology (which sets forth exceptions and adjustments, as well as any method for changes in the

methodology) by which rates or amounts to be paid for hospital services during a specified period are established under the system prior to the defined rate period, and

"(iii) hospitals covered under the system will make such reports (in lieu of cost and other reports, identified by the Secretary, otherwise required under this title) as the Secretary may require in order to properly monitor assurances provided under this subsection;

"(C) the State has provided the Secretary with satisfactory assurances that operation of the system will not result in any change in hospital admission practices which result in—

"(i) a significant reduction in the proportion of patients (receiving hospital services covered under the system) who have no third-party coverage and who are unable to pay for hospital services,

"(ii) a significant reduction in the proportion of individuals admitted to hospitals for inpatient hospital services for which payment is (or is likely to be) less than the anticipated charges for or costs of such services,

"(iii) the refusal to admit patients who would be expected to require unusually costly or prolonged treatment for reasons other than those related to the appropriateness of the care available at the hospital, or

"(iv) the refusal to provide emergency services to any person who is in need of emergency services if the hospital provides such services;

"(D) any change by the State in the system which has the effect of materially reducing payments to hospitals can only take effect upon 60 days notice to the Secretary and to the hospitals the payment to which is likely to be materially affected by the change; and

"(E) the State has provided the Secretary with satisfactory assurances that in the development of the system the State has consulted with local governmental officials concerning the impact of the system on public hospitals.

The Secretary shall respond to requests of States under this paragraph within 60 days of the date the request is submitted to the Secretary.

"(6) If the Secretary determines that the assurances described in paragraph (1)(C) have not been met with respect to any 36-month period, the Secretary may reduce payments under this title to hospitals under the system in an amount equal to the amount by which the payment under this title under such system for such period exceeded the amount of payments which would otherwise have been made under this title not using such system.".

96 Stat. 339.
42 USC 1395ww.

(d) Subsection (d) of such section, as added by section 110 of the Tax Equity and Fiscal Responsibility Act of 1982, is amended—

(1) by striking out "section 1814(b)" in paragraph (2)(A) and inserting in lieu thereof "subsection (b)", and

(2) by redesignating the subsection as subsection (j) and transferring and inserting such subsection at the end of section 1814 of the Social Security Act under the following heading:

42 USC 1395f.

"Elimination of Lesser-of-Cost-or-Charges Provision".

96 Stat. 331.
42 USC 1395ww.

(e) Such section 1886 is further amended by adding at the end the following new subsections:

"(d)(1)(A) Notwithstanding section 1814(b) but subject to the provisions of section 1813, the amount of the payment with respect to the operating costs of inpatient hospital services (as defined in subsection (a)(4)) of a subsection (d) hospital (as defined in subparagraph (B)) for inpatient hospital discharges in a cost reporting period or in a fiscal year— 42 USC 1395f, 1395e.

"(i) beginning on or after October 1, 1983, and before October 1, 1984, is equal to the sum of—

"(I) the target percentage (as defined in subparagraph (C)) of the hospital's target amount for the cost reporting period (as defined in subsection (b)(3)(A), but determined without the application of subsection (a)), and

"(II) the DRG percentage (as defined in subparagraph (C)) of the regional adjusted DRG prospective payment rate determined under paragraph (2) for such discharges;

"(ii) beginning on or after October 1, 1984, and before October 1, 1986, is equal to the sum of—

"(I) the target percentage (as defined in subparagraph (C)) of the hospital's target amount for the cost reporting period (as defined in subsection (b)(3)(A), but determined without the application of subsection (a)), and

"(II) the DRG percentage (as defined in subparagraph (C)) of the applicable combined adjusted DRG prospective payment rate determined under subparagraph (D) for such discharges; or

"(iii) beginning on or after October 1, 1986, is equal to the national adjusted DRG prospective payment rate determined under paragraph (3) for such discharges.

"(B) As used in this section, the term 'subsection (d) hospital' means a hospital located in one of the fifty States or the District of Columbia other than—

"(i) a psychiatric hospital (as defined in section 1861(f)),

"(ii) a rehabilitation hospital (as defined by the Secretary),

"(iii) a hospital whose inpatients are predominantly individuals under 18 years of age, or

"(iv) a hospital which has an average inpatient length of stay (as determined by the Secretary) of greater than 25 days;

and, in accordance with regulations of the Secretary, does not include a psychiatric or rehabilitation unit of the hospital which is a distinct part of the hospital (as defined by the Secretary).

"(C) For purposes of this subsection, for cost reporting periods beginning, or discharges occurring—

"(i) on or after October 1, 1983, and before October 1, 1984, the 'target percentage' is 75 percent and the 'DRG percentage' is 25 percent;

"(ii) on or after October 1, 1984, and before October 1, 1985, the 'target percentage' is 50 percent and the 'DRG percentage' is 50 percent; and

"(iii) on or after October 1, 1985, and before October 1, 1986, the 'target percentage' is 25 percent and the 'DRG percentage' is 75 percent.

"(D) For purposes of subparagraph (A)(ii)(II), the 'applicable combined adjusted DRG prospective payment rate' for cost reporting periods beginning, or discharges occurring—

"(i) on or after October 1, 1984, and before October 1, 1985, is a combined rate consisting of 25 percent of the national adjusted DRG prospective payment rate, and 75 percent of the regional

adjusted DRG prospective payment rate, determined under paragraph (3) for such discharges; and

"(ii) on or after October 1, 1985, and before October 1, 1986, is a combined rate consisting of 50 percent of the national adjusted DRG prospective payment rate, and 50 percent of the regional adjusted DRG prospective payment rate, determined under paragraph (3) for such discharges.

"(2) The Secretary shall determine a national adjusted DRG prospective payment rate, for each inpatient hospital discharge in fiscal year 1984 involving inpatient hospital services of a subsection (d) hospital in the United States, and shall determine a regional adjusted DRG prospective payment rate for such discharges in each region, for which payment may be made under part A of this title. Each such rate shall be determined for hospitals located in urban or rural areas within the United States or within each such region, respectively, as follows:

"(A) DETERMINING ALLOWABLE INDIVIDUAL HOSPITAL COSTS FOR BASE PERIOD.—The Secretary shall determine the allowable operating costs per discharge of inpatient hospital services for the hospital for the most recent cost reporting period for which data are available.

"(B) UPDATING FOR FISCAL YEAR 1984.—The Secretary shall update each amount determined under subparagraph (A) for fiscal year 1984 by—

"(i) updating for fiscal year 1983 by the estimated average rate of change of hospital costs industry-wide between the cost reporting period used under such subparagraph and fiscal year 1983 and the most recent case-mix data available, and

"(ii) projecting for fiscal year 1984 by the applicable percentage increase (as defined in subsection (b)(3)(B)) for fiscal year 1984.

"(C) STANDARDIZING AMOUNTS.—The Secretary shall standardize the amount updated under subparagraph (B) for each hospital by—

"(i) excluding an estimate of indirect medical education costs,

"(ii) adjusting for variations among hospitals by area in the average hospital wage level, and

"(iii) adjusting for variations in case mix among hospitals.

"(D) COMPUTING URBAN AND RURAL AVERAGES.—The Secretary shall compute an average of the standardized amounts determined under subparagraph (C) for the United States and for each region—

"(i) for all subsection (d) hospitals located in an urban area within the United States or that region, respectively, and

"(ii) for all subsection (d) hospitals located in a rural area within the United States or that region, respectively.

"Region."

"Urban area."

For purposes of this subsection, the term 'region' means one of the nine census divisions, comprising the fifty States and the District of Columbia, established by the Bureau of the Census for statistical and reporting purposes; the term 'urban area' means an area within a Standard Metropolitan Statistical Area (as defined by the Office of Management and Budget) or within such similar area as the Secretary has recognized under subsec-

tion (a) by regulation; and the term 'rural area' means any area outside such an area or similar area. "Rural area."

"(E) REDUCING FOR VALUE OF OUTLIER PAYMENTS.—The Secretary shall reduce each of the average standardized amounts determined under subparagraph (D) by a proportion equal to the proportion (estimated by the Secretary) of the amount of payments under this subsection based on DRG prospective payment rates which are additional payments described in paragraph (5)(A) (relating to outlier payments).

"(F) MAINTAINING BUDGET NEUTRALITY.—The Secretary shall adjust each of such average standardized amounts as may be required under subsection (e)(1)(B) for that fiscal year.

"(G) COMPUTING DRG-SPECIFIC RATES FOR URBAN AND RURAL HOSPITALS IN THE UNITED STATES AND IN EACH REGION.—For each discharge classified within a diagnosis-related group, the Secretary shall establish a national DRG prospective payment rate and shall establish a regional DRG prospective payment rate for each region, each of which is equal—

"(i) for hospitals located in an urban area in the United States or that region (respectively), to the product of—

"(I) the average standardized amount (computed under subparagraph (D), reduced under subparagraph (E), and adjusted under subparagraph (F)) for hospitals located in an urban area in the United States or that region, and

"(II) the weighting factor (determined under paragraph (4)(B)) for that diagnosis-related group; and

"(ii) for hospitals located in a rural area in the United States or that region (respectively), to the product of—

"(I) the average standardized amount (computed under subparagraph (D), reduced under subparagraph (E), and adjusted under subparagraph (F)) for hospitals located in a rural area in the United States or that region, and

"(II) the weighting factor (determined under paragraph (4)(B)) for that diagnosis-related group.

"(H) ADJUSTING FOR DIFFERENT AREA WAGE LEVELS.—The Secretary shall adjust the proportion, (as estimated by the Secretary from time to time) of hospitals' costs which are attributable to wages and wage-related costs, of the national and regional DRG prospective payment rates computed under subparagraph (G) for area differences in hospital wage levels by a factor (established by the Secretary) reflecting the relative hospital wage level in the geographic area of the hospital compared to the national average hospital wage level.

"(3) The Secretary shall determine a national adjusted DRG prospective payment rate, for each inpatient hospital discharge in a fiscal year after fiscal year 1984 involving inpatient hospital services of a subsection (d) hospital in the United States, and shall determine a regional adjusted DRG prospective payment rate for such discharges in each region for which payment may be made under part A of this title. Each such rate shall be determined for hospitals located in urban or rural areas within the United States and within each such region, respectively, as follows:

"(A) UPDATING PREVIOUS STANDARDIZED AMOUNTS.—The Secretary shall compute an average standardized amount for hospitals located in an urban area and for hospitals located in a rural

area within the United States and for hospitals located in an urban area and for hospitals located in a rural area within each region, equal to the respective average standardized amount computed for the previous fiscal year under paragraph (2)(D) or under this subparagraph, increased for fiscal year 1985 by the applicable percentage increase under subsection (b)(3)(B), and adjusted for subsequent fiscal years in accordance with the final determination of the Secretary under subsection (e)(4), and adjusted to reflect the most recent case-mix data available.

"(B) REDUCING FOR VALUE OF OUTLIER PAYMENTS.—The Secretary shall reduce each of the average standardized amounts determined under subparagraph (A) by a proportion equal to the proportion (estimated by the Secretary) of the amount of payments under this subsection based on DRG prospective payment amounts which are additional payments described in paragraph (5)(A) (relating to outlier payments).

"(C) MAINTAINING BUDGET NEUTRALITY.—The Secretary shall adjust each of such average standardized amounts as may be required under subsection (e)(1)(B) for that fiscal year.

"(D) COMPUTING DRG-SPECIFIC RATES FOR URBAN AND RURAL HOSPITALS.—For each discharge classified within a diagnosis-related group, the Secretary shall establish for the fiscal year a national DRG prospective payment rate and shall establish a regional DRG prospective payment rate for each region, each of which is equal—

"(i) for hospitals located in an urban area in the United States or that region (respectively), to the product of—

"(I) the average standardized amount (computed under subparagraph (A), reduced under subparagraph (B), and adjusted under subparagraph (C), for the fiscal year for hospitals located in an urban area in the United States or that region, and

"(II) the weighting factor (determined under paragraph (4)(B)) for that diagnosis-related group; and

"(ii) for hospitals located in a rural area in the United States or that region (respectively), to the product of—

"(I) the average standardized amount (computed under subparagraph (A), reduced under subparagraph (B), and adjusted under subparagraph (C)) for the fiscal year for hospitals located in a rural area in the United States or that region, and

"(II) the weighting factor (determined under paragraph (4)(B)) for that diagnosis-related group.

"(E) ADJUSTING FOR DIFFERENT AREA WAGE LEVELS.—The Secretary shall adjust the proportion, (as estimated by the Secretary from time to time) of hospitals' costs which are attributable to wages and wage-related costs, of the DRG prospective payment rates computed under subparagraph (D) for area differences in hospital wage levels by a factor (established by the Secretary) reflecting the relative hospital wage level in the geographic area of the hospital compared to the national average hospital wage level.

"(4)(A) The Secretary shall establish a classification of inpatient hospital discharges by diagnosis-related groups and a methodology for classifying specific hospital discharges within these groups.

"(B) For each such diagnosis-related group the Secretary shall assign an appropriate weighting factor which reflects the relative

hospital resources used with respect to discharges classified within that group compared to discharges classified within other groups.

"(C) The Secretary shall adjust the classifications and weighting factors established under subparagraphs (A) and (B), for discharges in fiscal year 1986 and at least every four fiscal years thereafter, to reflect changes in treatment patterns, technology, and other factors which may change the relative use of hospital resources.

"(D) The Commission (established under subsection (e)(2)) shall consult with and make recommendations to the Secretary with respect to the need for adjustments under subparagraph (C), based upon its evaluation of scientific evidence with respect to new practices, including the use of new technologies and treatment modalities. The Commission shall report to the Congress with respect to its evaluation of any adjustments made by the Secretary under subparagraph (C).

Report to Congress.

"(5)(A)(i) The Secretary shall provide for an additional payment for a subsection (d) hospital for any discharge in a diagnosis-related group, the length of stay of which exceeds the mean length of stay for discharges within that group by a fixed number of days, or exceeds such mean length of stay by some fixed number of standard deviations, whichever is the fewer number of days.

"(ii) For cases which are not included in clause (i), a subsection (d) hospital may request additional payments in any case where charges, adjusted to cost, exceed a fixed multiple of the applicable DRG prospective payment rate, or exceed such other fixed dollar amount, whichever is greater.

"(iii) The amount of such additional payment under clauses (i) and (ii) shall be determined by the Secretary and shall approximate the marginal cost of care beyond the cutoff point applicable under clause (i) or (ii).

"(iv) The total amount of the additional payments made under this subparagraph for discharges in a fiscal year may not be less than 5 percent nor more than 6 percent of the total payments projected or estimated to be made based on DRG prospective payment rates for discharges in that year.

"(B) The Secretary shall provide for an additional payment amount for subsection (d) hospitals with indirect costs of medical education, in an amount computed in the same manner as the adjustment for such costs under regulations (in effect as of January 1, 1983) under subsection (a)(2), except that in the computation under this subparagraph the Secretary shall use an educational adjustment factor equal to twice the factor provided under such regulations.

"(C)(i) The Secretary shall provide for such exceptions and adjustments to the payment amounts established under this subsection as the Secretary deems appropriate to take into account the special needs of regional and national referral centers (including those hospitals of 500 or more beds located in rural areas), and of public or other hospitals that serve a significantly disproportionate number of patients who have low income or are entitled to benefits under part A of this title.

"(ii) With respect to a subsection (d) hospital which is a 'sole community hospital', payment under paragraph (1)(A) for any cost reporting period or fiscal year beginning on or after October 1, 1984, shall be determined under the formula provided in clause (i) of that paragraph with the target and DRG percentages determined under paragraph (1)(C)(i) (except that any reference to paragraph (2) shall

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be deemed, for this purpose, a reference to paragraph (3)). In the case of a sole community hospital that experiences, in a cost reporting period (beginning on or after October 1, 1983, and before October 1, 1986) compared to the previous cost reporting period, a decrease of more than 5 percent in its total number of inpatient cases due to circumstances beyond its control, the Secretary shall provide for such adjustment to the payment amounts under this subsection as may be necessary to fully compensate the hospital for the fixed costs it incurs in the period in providing inpatient hospital services, including the reasonable cost of maintaining necessary core staff and services. For purposes of this subparagraph, the term 'sole community hospital' means a hospital that, by reason of factors such as isolated location, weather conditions, travel conditions, or absence of other hospitals (as determined by the Secretary), is the sole source of inpatient hospital services reasonably available to individuals in a geographical area who are entitled to benefits under part A.

"Sole community hospital."

"(iii) The Secretary shall provide by regulation for such other exceptions and adjustments to such payment amounts under this subsection as the Secretary deems appropriate (including exceptions and adjustments that may be appropriate with respect to hospitals involved extensively in treatment for and research on cancer).

"(iv) The Secretary may provide for such adjustments to the payment amounts under this subsection as the Secretary deems appropriate to take into account the unique circumstances of hospitals located in Alaska and Hawaii.

"(D)(i) The Secretary shall estimate the amount of reimbursement made for services described in section 1862(a)(14) with respect to which payment was made under part B in the base reporting periods referred to in paragraph (2)(A) and with respect to which payment is no longer being made.

42 USC 1395y.

"(ii) The Secretary shall provide for an adjustment to the payment for subsection (d) hospitals in each fiscal year so as appropriately to reflect the net amount described in clause (i).

"(6) The Secretary shall provide for publication in the Federal Register, on or before the September 1 before each fiscal year (beginning with fiscal year 1984), of a description of the methodology and data used in computing the adjusted DRG prospective payment rates under this subsection, including any adjustments required under subsection (e)(1)(B).

Publication in Federal Register.

"(7) There shall be no administrative or judicial review under section 1878 or otherwise of—

42 USC 1395oo.

"(A) the determination of the requirement, or the proportional amount, of any adjustment effected pursuant to subsection (e)(1), and

"(B) the establishment of diagnosis-related groups, of the methodology for the classification of discharges within such groups, and of the appropriate weighting factors thereof under paragraph (4).

"(e)(1)(A) For cost reporting periods of hospitals beginning in fiscal year 1984 or fiscal year 1985, the Secretary shall provide for such proportional adjustment in the applicable percentage increase (otherwise applicable to the periods under subsection (b)(3)(B)) as may be necessary to assure that—

"(i) the aggregate payment amounts otherwise provided under subsection (d)(1)(A)(i)(I) for that fiscal year for operating costs of

inpatient hospital services of hospitals (excluding payments made under section 1866(a)(1)(F)), 42 USC 1395cc.

are not greater or less than—

"(ii) the target percentage (as defined in subsection (d)(1)(C)) of the payment amounts which would have been payable for such services for those same hospitals for that fiscal year under this section under the law as in effect before the date of the enactment of the Social Security Amendments of 1983 (excluding payments made under section 1866(a)(1)(F));

except that the adjustment made under this subparagraph shall apply only to subsection (d) hospitals and shall not apply for purposes of making computations under subsection (d)(2)(B)(ii) or subsection (d)(3)(A).

"(B) For discharges occurring in fiscal year 1984 or fiscal year 1985, the Secretary shall provide under subsections (d)(2)(F) and (d)(3)(C) for such equal proportional adjustment in each of the average standardized amounts otherwise computed for that fiscal year as may be necessary to assure that—

"(i) the aggregate payment amounts otherwise provided under subsection (d)(1)(A)(i)(II) and (d)(5) for that fiscal year for operating costs of inpatient hospital services of hospitals (excluding payments made under section 1866(a)(1)(F)),

are not greater or less than—

"(ii) the DRG percentage (as defined in subsection (d)(1)(C)) of the payment amounts which would have been payable for such services for those same hospitals for that fiscal year under this section under the law as in effect before the date of the enactment of the Social Security Amendments of 1983 (excluding payments made under section 1866(a)(1)(F)).

"(2) The Director of the Congressional Office of Technology Assessment (hereinafter in this subsection referred to as the 'Director' and the 'Office', respectively) shall provide for appointment of a Prospective Payment Assessment Commission (hereinafter in this subsection referred to as the 'Commission'), to be composed of independent experts appointed by the Director. In addition to carrying out its functions under subsection (d)(4)(D), the Commission shall review the applicable percentage increase factor described in subsection (b)(3)(B) and make recommendations to the Secretary on the appropriate percentage change which should be effected for hospital inpatient discharges under subsections (b) and (d) for fiscal years beginning with fiscal year 1986. In making its recommendations, the Commission shall take into account changes in the hospital market-basket described in subsection (b)(3)(B), hospital productivity, technological and scientific advances, the quality of health care provided in hospitals (including the quality and skill level of professional nursing required to maintain quality care), and long-term cost-effectiveness in the provision of inpatient hospital services.

"(3) The Commission, not later than the April 1 before the beginning of each fiscal year (beginning with fiscal year 1986), shall report its recommendations to the Secretary on an appropriate change factor which should be used (instead of the applicable percentage increase described in subsection (b)(3)(B)) for inpatient hospital services for discharges in that fiscal year. Recommendations.

"(4) Taking into consideration the recommendations of the Commission, the Secretary shall determine for each fiscal year (beginning with fiscal year 1986) the percentage change which will apply for purposes of this section as the applicable percentage increase

(otherwise described in subsection (b)(3)(B)) for discharges in that fiscal year, and which will take into account amounts necessary for the efficient and effective delivery of medically appropriate and necessary care of high quality.

Publication in Federal Register.

"(5) The Secretary shall cause to have published for public comment in the Federal Register, not later than—

"(A) the June 1 before each fiscal year (beginning with fiscal year 1986), the Secretary's proposed determination under paragraph (4) for that fiscal year, and

"(B) the September 1 before such fiscal year after such consideration of public comment on the proposal as is feasible in the time available, the Secretary's final determination under such paragraph for that year.

The Secretary shall include in the publication referred to in subparagraph (A) for a fiscal year the report of the Commission's recommendations submitted under paragraph (3) for that fiscal year.

"(6) (A) The Commission shall consist of 15 individuals. Members of the Commission shall first be appointed no later than April 1, 1984, for a term of three years, except that the Director may provide initially for such shorter terms as will insure that (on a continuing basis) the terms of no more than seven members expire in any one year.

"(B) The membership of the Commission shall provide expertise and experience in the provision and financing of health care, including physicians and registered professional nurses, employers, third party payors, individuals skilled in the conduct and interpretation of biomedical, health services, and health economics research, and individuals having expertise in the research and development of technological and scientific advances in health care. The Director shall seek nominations from a wide range of groups, including—

"(i) national organizations representing physicians, including medical specialty organizations and registered professional nurses and other skilled health professionals;

"(ii) national organizations representing hospitals, including teaching hospitals;

"(iii) national organizations representing manufacturers of health care products; and

"(iv) national organizations representing the business community, health benefit programs, labor, and the elderly.

"(C) Subject to such review as the Office deems necessary to assure the efficient administration of the Commission, the Commission may—

"(i) employ and fix the compensation of such personnel (not to exceed 25) as may be necessary to carry out its duties;

"(ii) seek such assistance and support as may be required in the performance of its duties from appropriate Federal departments and agencies;

"(iii) enter into contracts or make other arrangements, as may be necessary for the conduct of the work of the Commission;

"(iv) make advance, progress, and other payments which relate to the work of the Commission;

"(v) provide transportation and subsistence for persons serving without compensation; and

"(vi) prescribe such rules and regulations as it deems necessary with respect to the internal organization and operation of the Commission.

"(D) While serving on the business of the Commission (including traveltime), a member of the Commission shall be entitled to compensation at the per diem equivalent of the rate provided for level IV of the Executive Schedule under section 5315 of title 5, United States Code; and while so serving away from home and his regular place of business, a member may be allowed travel expenses, as authorized by the Chairman of the Commission.

"(E) In order to identify medically appropriate patterns of health resources use in accordance with paragraph (2), the Commission shall collect and assess information on medical and surgical procedures and services, including information on regional variations of medical practice and lengths of hospitalization and on other patient-care data, giving special attention to treatment patterns for conditions which appear to involve excessively costly or inappropriate services not adding to the quality of care provided. In order to assess the safety, efficacy, and cost-effectiveness of new and existing medical and surgical procedures, the Commission shall, in coordination to the extent possible with the Secretary, collect and assess factual information, giving special attention to the needs of updating existing diagnosis-related groups, establishing new diagnosis-related groups, and making recommendations on relative weighting factors for such groups to reflect appropriate differences in resource consumption in delivering safe, efficacious, and cost-effective care. In collecting and assessing information, the Commission shall—

"(i) utilize existing information, both published and unpublished, where possible, collected and assessed either by its own staff or under other arrangements made in accordance with this paragraph;

"(ii) carry out, or award grants or contracts for, original research and experimentation, including clinical research, where existing information is inadequate for the development of useful and valid guidelines by the Commission; and

"(iii) adopt procedures allowing any interested party to submit information with respect to medical and surgical procedures and services (including new practices, such as the use of new technologies and treatment modalities), which information the Commission shall consider in making reports and recommendations to the Secretary and Congress.

"(F) The Commission shall have access to such relevant information and data as may be available from appropriate Federal agencies and shall assure that its activities, especially the conduct of original research and medical studies, are coordinated with the activities of Federal agencies.

"(G)(i) The Office shall report annually to the Congress on the functioning and progress of the Commission and on the status of the assessment of medical procedures and services by the Commission. Report to Congress.

"(ii) The Office shall have unrestricted access to all deliberations, records, and data of the Commission, immediately upon its request.

"(iii) In order to carry out its duties under this paragraph, the Office is authorized to expend reasonable and neccessary funds as mutually agreed upon by the Office and the Commission. The Office shall be reimbursed for such funds by the Commission from the appropriations made with respect to the Commission.

"(H) The Commission shall be subject to periodic audit by the General Accounting Office. Audit.

"(I)(i) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this paragraph. Appropriation authorization.

"(ii) Eighty-five percent of such appropriation shall be payable from the Federal Hospital Insurance Trust Fund, and 15 percent of such appropriation shall be payable from the Federal Supplementary Medical Insurance Trust Fund.

"(f)(1) The Secretary shall maintain, for a period ending not earlier than September 30, 1988, a system for the reporting of costs of hospitals receiving payments computed under subsection (d).

"(2) If the Secretary determines, based upon information supplied by a utilization and quality control peer review organization under part B of title XI, that a hospital, in order to circumvent the payment method established under subsection (b) or (d) of this section, has taken an action that results in the admission of individuals entitled to benefits under part A unnecessarily, unnecessary multiple admissions of the same such individuals, or other inappropriate medical or other practices with respect to such individuals, the Secretary may—

42 USC 1320c.

42 USC 1301.

"(A) deny payment (in whole or in part) under part A with respect to inpatient hospital services provided with respect to such an unnecessary admission (or subsequent admission of the same individual), or

"(B) require the hospital to take other corrective action necessary to prevent or correct the inappropriate practice.

42 USC 1395y.

"(3) The provisions of paragraphs (2), (3), and (4) of section 1862(d) shall apply to determinations under paragraph (2) of this subsection in the same manner as they apply to determinations made under section 1862(d)(1).

"(g)(1) If the Congress does not enact legislation, after the date of the enactment of this subsection and before October 1, 1986, respecting the payment under this title for capital-related costs for inpatient hospital services, no payment may be made under this title for capital-related costs of capital expenditures (as defined in section 1122(g) and except as provided in section 1122(j)) for inpatient hospital services in a State, which expenditures are obligated after September 30, 1986, unless the State has an agreement with the Secretary under section 1122(b) and under the agreement the State has recommended approval of the capital expenditures.

42 USC 1320a-1.

"(2) The Secretary shall provide that the amount which is allowable, with respect to reasonable costs of inpatient hospital services for which payment may be made under this title, for a return on equity capital for hospitals shall, for cost reporting periods beginning on or after the date of the enactment of this subsection, be equal to amounts otherwise allowable under regulations in effect on March 1, 1983, except that the rate of return to be recognized shall be equal to the average of the rates of interest, for each of the months any part of which is included in the reporting period, on obligations issued for purchase by the Federal Hospital Insurance Trust Fund.".

42 USC 1395y.

(f) Section 1862(a)(1) of the Social Security Act is amended—

(1) by striking out "(B) or (C)" and inserting in lieu thereof "(B), (C), or (D)";

(2) by striking out "and" at the end of subparagraph (B);

(3) by striking out the semicolon at the end of subparagraph (C) and inserting in lieu thereof a comma and "and"; and

(4) by adding at the end thereof the following new subparagraph:

"(D) in the case of clinical care items and services provided with the concurrence of the Secretary and with respect to

research and experimentation conducted by, or under contract with, the Prospective Payment Assessment Commission or the Secretary, which are not reasonable and necessary to carry out the purposes of section 1886(e)(6);".

96 Stat. 331.
42 USC 1395ww.
42 USC 1395ww note.

(g) In determining whether a hospital is in an urban or rural area for purposes of section 1886(d) of the Social Security Act, the Secretary of Health and Human Services shall classify any hospital located in New England as being located in an urban area if such hospital was classified as being located in an urban area under the Standard Metropolitan Statistical Area system of classification in effect in 1979.

CONFORMING AMENDMENTS

SEC. 602. (a) Section 1153(b)(2) of the Social Security Act is amended by adding at the end the following new subparagraph:

42 USC 1153c-2.

"(C) The twelve-month period referred to in subparagraph (A) shall be deemed to begin not later than October 1983.".

(b) Sections 1814(g) and 1835(e) of the Social Security Act are each amended by inserting "(or would be if section 1886 did not apply)" after "section 1861(v)(1)(D)".

42 USC 1395f, 1395n.

(c) Section 1814(h)(2) of such Act is amended by striking out "the reasonable costs for such services" and inserting in lieu thereof "the amount that would be payable for such services under subsection (b) and section 1886".

(d)(1) The matter in section 1861(v)(1)(G)(i) of such Act following subclause (III) is amended by striking out "on the basis of the reasonable cost of" and inserting in lieu thereof "the amount otherwise payable under part A with respect to".

42 USC 1395x.

(2) Section 1861(v)(2)(A) of such Act is amended by striking out "an amount equal to the reasonable cost of" and inserting in lieu thereof "the amount that would be taken into account with respect to".

(3) Section 1861(v)(2)(B) of such Act is amended by striking out "the equivalent of the reasonable cost of".

(4) Section 1861(v)(3) of such Act is amended by striking out "the reasonable cost of such bed and board furnished in semiprivate accommodations (determined pursuant to paragraph (1))" and inserting in lieu thereof "the amount otherwise payable under this title for such bed and board furnished in semiprivate accommodations".

(e) Section 1862(a) of such Act is amended—

42 USC 1395y.

(1) by striking out "or" at the end of paragraph (12),

(2) by striking out the period at the end of paragraph (13) and inserting in lieu thereof "; or", and

(3) by adding at the end the following new paragraph:

"(14) which are other than physicians' services (as defined in regulations promulgated specifically for purposes of this paragraph) and which are furnished to an individual who is an inpatient of a hospital by an entity other than the hospital, unless the services are furnished under arrangements (as defined in section 1861(w)(1)) with the entity made by the hospital.".

(f)(1) Section 1866(a)(1) of such Act is amended—

42 USC 1395cc.

(A) by striking out "and" at the end of subparagraph (D),

(B) by striking out the period at the end of subparagraph (E), and

(C) by adding at the end the following new subparagraphs:

"(F) in the case of hospitals which provide inpatient hospital services for which payment may be made under subsection (c) or (d) of section 1886, to maintain an agreement with a utilization and quality control peer review organization (if there is such an organization which has a contract with the Secretary under part B of title XI for the area in which the hospital is located) under which the organization will perform functions under that part with respect to the review of the validity of diagnostic information provided by such hospital, the completeness, adequacy, and quality of care provided, the appropriateness of admissions and discharges, and the appropriateness of care provided for which additional payments are sought under section 1886(d)(5), with respect to inpatient hospital services for which payment may be made under part A of this title (and for purposes of payment under this title, the cost of such agreement to the hospital shall be considered a cost incurred by such hospital in providing inpatient services under part A, and (i) shall be paid directly by the Secretary to such organization on behalf of such hospital in accordance with a rate per review established by the Secretary, (ii) shall be transferred from the Federal Hospital Insurance Trust Fund, without regard to amounts appropriated in advance in appropriation Acts, in the same manner as transfers are made for payment for services provided directly to beneficiaries, (iii) shall be not less than an amount which reflects the rates per review established in fiscal year 1982 for both direct and administrative costs (adjusted for inflation), and (iv) shall not be less in the aggregate for a fiscal year than the aggregate amount expended in fiscal year 1982 for direct and administrative costs (adjusted for inflation)) of such reviews,

96 Stat. 331.
42 USC 1395ww.
42 USC 1320c.
42 USC 1301.

"(G) in the case of hospitals which provide inpatient hospital services for which payment may be made under subsection (b) or (d) of section 1886, not to charge any individual or any other person for inpatient hospital services for which such individual would be entitled to have payment made under part A but for a denial or reduction of payments under section 1886(f)(2), and

"(H) in the case of hospitals which provide inpatient hospital services for which payment may be made under this title, to have all items and services (other than physicians' services as defined in regulations for purposes of section 1862(a)(14)) (i) that are furnished to an individual who is an inpatient of the hospital, and (ii) for which the individual is entitled to have payment made under this title, furnished by the hospital or otherwise under arrangements (as defined in section 1861(w)(1)) made by the hospital.".

42 USC 1395cc.

(2) The matter in section 1866(a)(2)(B)(ii) of such Act preceding subclause (I) is amended by inserting "and except with respect to inpatient hospital costs with respect to which amounts are payable under section 1886(d)" after "(except with respect to emergency services".

42 USC 1395mm.

(g) Section 1876(g) of such Act is amended by adding at the end the following:

"(4) A risk-sharing contract under this subsection may, at the option of an eligible organization, provide that the Secretary—

"(A) will reimburse hospitals either for payment amounts determined in accordance with section 1886, or, if applicable, for the reasonable cost (as determined under section 1861(v)), of

inpatient hospital services furnished to individuals enrolled with such organization pursuant to subsection (d), and

"(B) will deduct the amount of such reimbursement for payment which would otherwise be made to such organization.".

(h)(1) Section 1878(a) of such Act is amended— 42 USC 1395oo.

(A) by inserting "and (except as provided in subsection (g)(2)) any hospital which receives payments in amounts computed under subsection (b) or (d) of section 1886 and which has submitted such reports within such time as the Secretary may require in order to make payment under such section may obtain a hearing with respect to such payment by the Board" after "subsection (h)" in the matter before paragraph (1),

(B) by inserting "(i)" after "(A)" in paragraph (1)(A),

(C) by inserting "or" at the end of paragraph (1)(A) and by adding after such paragraph the following new clause:

"(ii) is dissatisfied with a final determination of the Secretary as to the amount of the payment under subsection (b) or (d) of section 1886,", and

(D) by striking out "(1)(A)" in paragraph (3) and inserting in lieu thereof "(1)(A)(i), or with respect to appeals under paragraph (1)(A)(ii), 180 days after notice of the Secretary's final determination,".

(2)(A) The last sentence of section 1878(f)(1) of the Social Security Act is amended by inserting "(or, in an action brought jointly by several providers, the judicial district in which the greatest number of such providers are located)" after "the judicial district in which the provider is located".

(B) Section 1878(f)(1) of such Act is further amended by adding at the end thereof the following new sentence: "Any appeal to the Board or action for judicial review by providers which are under common ownership or control must be brought by such providers as a group with respect to any matter involving an issue common to such providers.".

(3) Section 1878(g) of such Act is amended by inserting "(1)" after "(g)" and by adding at the end the following new paragraph:

"(2) The determinations and other decisions described in section 1886(d)(7) shall not be reviewed by the Board or by any court pursuant to an action brought under subsection (f) or otherwise."

(4) The third sentence of section 1878(h) of such Act is amended by striking out "cost reimbursement" and inserting in lieu thereof "payment of providers of services".

(i) The first sentence of section 1881(b)(2)(A) of such Act is amended by inserting "or section 1886 (if applicable)" after "section 1861(v)". 42 USC 1395rr.

(j) Section 1887(a)(1)(B) of such Act is amended by inserting "or on the bases described in section 1886" after "on a reasonable cost basis". 96 Stat. 337. 42 USC 1395xx.

(k) The Secretary of Health and Human Services may, for any cost reporting period beginning prior to October 1, 1986, waive the requirements of sections 1862(a)(14) and 1866(a)(1)(H) of the Social Security Act in the case of a hospital which has followed a practice, since prior to October 1, 1982, of allowing direct billing under part B of title XVIII of such Act for services (other than physicians' services) so extensively, that immediate compliance with those requirements would threaten the stability of patient care. Any such waiver shall provide that such billing may continue to be made under part B of such title but that the payments to such hospital under part A 42 USC 1395y note. 42 USC 1395y, 1395cc. 42 USC 1395. 42 USC 1395j.

42 USC 1395c, 1395j.

of such title shall be reduced by the amount of the billings for such services under part B of such title. If such a waiver is granted, at the end of the waiver period the Secretary may provide for such methods of payments under part A as is appropriate, given the organizational structure of the institution.

42 USC 1395cc.

(l) Effective October 1, 1984, section 1866(a)(1) of the Social Security Act, as amended by subsection (f)(1) of this section, is further amended—

(1) by striking out "(if there is such an organization" in subparagraph (F) and insert in lieu thereof "(with an organization", and

(2) by adding at the end the following new sentence:

"In the case of a hospital which has an agreement in effect with an organization described in subparagraph (F), which organization's contract with the Secretary under part B of title XI is terminated on or after October 1, 1984, the hospital shall not be determined to be out of compliance with the requirement of such subparagraph during the six month period beginning on the date of the termination of that contract.".

REPORTS, EXPERIMENTS, AND DEMONSTRATION PROJECTS

42 USC 1395ww note.

SEC. 603. (a)(1) The Secretary of Health and Human Services (hereinafter in this title referred to as the "Secretary") shall study, develop, and report to the Congress within 18 months after the date of the enactment of this Act on the method and proposals for legislation by which capital-related costs, such as return on net equity, associated with inpatient hospital services can be included within the prospective payment amounts computed under section 1886(d) of the Social Security Act.

96 Stat. 331.
42 USC 1395ww.

(2)(A) The Secretary shall study and report annually to the Congress at the end of each year (beginning with 1984 and ending with 1987) on the impact, of the payment methodology under section 1886(d) of the Social Security Act during the previous year, on classes of hospitals, beneficiaries, and other payors for inpatient hospital services, and other providers, and, in particular, on the impact of computing DRG prospective payment rates by census division, rather than exclusively on a national basis. Each such report shall include such recommendations for such changes in legislation as the Secretary deems appropriate.

(B) During fiscal year 1984, the Secretary shall begin the collection of data necessary to compute the amount of physician charges attributable, by diagnosis-related groups, to physicians' services furnished to inpatients of hospitals whose discharges are classified within those groups. The Secretary shall include, in a report to Congress in 1985, recommendations on the advisability and feasibility of providing for determining the amount of the payments for physicians' services furnished to hospital inpatients based on the DRG type classification of the discharges of those inpatients, and legislative recommendations thereon.

(C) In the annual report to Congress under subparagraph (A) for 1985, the Secretary shall include the results of studies on—

(i) the feasibility and impact of eliminating or phasing out separate urban and rural DRG prospective payment rates under paragraph (3) of section 1886(d) of the Social Security Act;

(ii) whether and the method under which hospitals, not paid based on amounts determined under such section, can be paid

for inpatient hospital services on a prospective basis as under such section;

(iii) the appropriateness of the factors used under paragraph (5)(A) of such section to compensate hospitals for the additional expenses of outlier cases, and the application of severity of illness, intensity of care, or other modifications to the diagnosis-related groups, and the advisability and feasibility of providing for such modifications;

(iv) the feasibility and desirability of applying the payment methodology under such section to payment by all payors for inpatient hospital services; and

(v) the impact of such section on hospital admissions and the feasibility of making a volume adjustment in the DRG prospective payment rates or requiring preadmission certification in order to minimize the incentive to increase admissions.

Such report shall specifically include, with respect to the item described in clause (iv), consideration of the extent of cost-shifting to non-Federal payors and the impact of such cost-shifting on health insurance costs and premiums borne by employers and employees.

(D) In the annual report to Congress under subparagraph (A) for 1986, the Secretary shall include the results of a study examining the overall impact of State systems of hospital payment (either approved under section 1886(c) of the Social Security Act or under a waiver approved under section 402(a) of the Social Security Amendments of 1967 or section 222(a) of the Social Security Amendments of 1972), particularly assessing such systems' impact not only on the medicare program but also on the medicaid program, on payments and premiums under private health insurance plans, and on tax expenditures.

96 Stat. 331.
42 USC 1395ww.
42 USC 1395b-1.
42 USC 1395b-1 note.

(3)(A) The Secretary shall complete a study and make legislative recommendations to the Congress with respect to an equitable method of reimbursing sole community hospitals which takes into account their unique vulnerability to substantial variations in occupancy.

Study and recommendations.

(B) In addition, the Secretary shall examine ways to coordinate an information transfer between parts A and B of title XVIII of the Social Security Act, particularly with respect to those cases where a denial of coverage is made under part A of such title and no adjustment is made in the reimbursement to the admitting physician or physicians.

42 USC 1395c, 1395j.

(C) The Secretary shall also report on the appropriate treatment of uncompensated care costs, and adjustments that might be appropriate for large teaching hospitals located in rural areas.

(D) The Secretary shall also report on the advisability of having hospitals make available information on the cost of care to patients financed by both public programs and private payors.

(E) The studies and reports described in this paragraph shall be completed and submitted not later than April 1, 1985.

(4) The Secretary shall complete a study and make recommendations to the Congress, before April 1, 1984, with respect to a method for including hospitals located outside of the fifty States and the District of Columbia under a prospective payment system.

Study and recommendations.

(b)(1) Except as provided in paragraph (2), the amendments made by this title shall not affect the authority of the Secretary to develop, carry out, or continue experiments and demonstration projects.

Effective date.
42 USC 1395b-1 note.

(2) The Secretary shall provide that, upon the request of a State which has a demonstration project, for payment of hospitals under title XVIII of the Social Security Act approved under section 402(a) of the Social Security Amendments of 1967 or section 222(a) of the Social Security Amendments of 1972, which (A) is in effect as of March 1, 1983, and (B) was entered into after August 1982 (or upon the request of another party to demonstration project agreement), the terms of the demonstration agreement shall be modified so that the demonstration project is not required to maintain the rate of increase in medicare hospital costs in that State below the national rate of increase in medicare hospital costs.

42 USC 1395.
42 USC 1395b-1.
42 USC 1395b-1 note.

(c) The Secretary shall approve, with appropriate terms and conditions as defined by the Secretary, within 30 days after the date of enactment of this Act—

(1) the risk-sharing application of On Lok Senior Health Services (according to terms and conditions as specified by the Secretary), dated July 2, 1982, for waivers, pursuant to section 222 of the Social Security Amendments of 1972 and section 402(a) of the Social Security Amendments of 1967, of certain requirements of title XVIII of the Social Security Act over a period of 36 months in order to carry out a long-term care demonstration project, and

(2) the application of the Department of Health Services, State of California, dated November 1, 1982, pursuant to section 1115 of the Social Security Act, for the waiver of certain requirements of title XIX of such Act over a period of 36 months in order to carry out a demonstration project for capitated reimbursement for comprehensive long-term care services involving On Lok Senior Health Services.

42 USC 1315.
42 USC 1396.

42 USC 1395b-1 note.

(d) The Secretary shall conduct demonstrations with hospitals in areas with critical shortages of skilled nursing facilities to study the feasibility of providing alternative systems of care or methods of payment.

EFFECTIVE DATES

42 USC 1395ww note.

SEC. 604. (a)(1) Except as provided in section 602(l) and in paragraph (2), the amendments made by the preceding provisions of this title apply to items and services furnished by or under arrangements with a hospital beginning with its first cost reporting period that begins on or after October 1, 1983. A change in a hospital's cost reporting period that has been made after November 1982 shall be recognized for purposes of this section only if the Secretary finds good cause for that change.

Ante, p. 163.

(2) Section 1866(a)(1)(F) of the Social Security Act (as added by section 602(f)(1)(C) of this title), section 1862(a)(14) (as added by section 602(e)(3) of this title) and sections 1886(a)(1) (G) and (H) of such Act (as added by section 602(f)(1)(C) of this title) take effect on October 1, 1983.

Ante, p. 152.

(b) The Secretary shall make an appropriate reduction in the payment amount under section 1886(d) of the Social Security Act (as amended by this title) for any discharge, if the admission has occurred before a hospital's first cost reporting period that begins after September 1983, to take into account amounts payable under title XVIII of that Act (as in effect before the date of the enactment of this Act) for items and services furnished before that period.

(c)(1) The Secretary shall cause to be published in the Federal Register a notice of the interim final DRG prospective payment

rates established under subsection (d) of section 1886 of the Social Security Act (as amended by this title) no later than September 1, 1983, and allow for a period of public comment thereon. Payment on the basis of prospective rates shall become effective on October 1, 1983, without the necessity for consideration of comments received, but the Secretary shall, by notice published in the Federal Register, affirm or modify the amounts by December 31, 1983, after considering those comments.

Ante, p. 152.

(2) A modification under paragraph (1) that reduces a prospective payment rate shall apply only to discharges occurring after 30 days after the date the notice of the modification is published in the Federal Register.

(3) Rules to implement subsection (d) of section 1886 of the Social Security Act (as so amended) shall be established in accordance with the procedure described in this subsection.

DELAY IN PROVISION RELATING TO HOSPITAL-BASED SKILLED NURSING FACILITIES

SEC. 605. (a) Section 102(b) of the Tax Equity and Fiscal Responsibility Act of 1982 is amended by striking out "October 1, 1982" and inserting in lieu thereof "October 1, 1983".

96 Stat. 336.
42 USC 1395x note.

(b) The Secretary of Health and Human Services shall, prior to December 31, 1983, complete a study and report to the Congress with respect to (1) the effect which the implementation of section 102 of the Tax Equity and Fiscal Responsibility Act of 1982 would have on hospital-based skilled nursing facilities, given the differences (if any) in the patient populations served by such facilities and by community-based skilled nursing facilities and (2) the impact on skilled nursing facilities of hospital prospective payment systems, and recommendations concerning payment of skilled nursing facilities.

42 USC 1395x note.

SHIFT IN MEDICARE PREMIUMS TO COINCIDE WITH COST-OF-LIVING INCREASE

SEC. 606. (a)(1) Section 1839 of the Social Security Act is amended by striking out subsections (a), (b), and (c) and inserting in lieu thereof the following:

42 USC 1395r.

"(a)(1) The Secretary shall, during September of 1983 and of each year thereafter, determine the monthly actuarial rate for enrollees age 65 and over which shall be applicable for the succeeding calendar year. Such actuarial rate shall be the amount the Secretary estimates to be necessary so that the aggregate amount for such calendar year with respect to those enrollees age 65 and older will equal one-half of the total of the benefits and administrative costs which he estimates will be payable from the Federal Supplementary Medical Insurance Trust Fund for services performed and related administrative costs incurred in such calendar year with respect to such enrollees. In calculating the monthly actuarial rate, the Secretary shall include an appropriate amount for a contingency margin.

"(2) The monthly premium of each individual enrolled under this part for each month after December 1983 shall, except as provided in subsections (b) and (e), be the amount determined under paragraph (3).

"(3) The Secretary shall, during September of 1983 and of each year thereafter, determine and promulgate the monthly premium

applicable for individuals enrolled under this part for the succeeding calendar year. The monthly premium shall (except as otherwise provided in subsection (e)) be equal to the smaller of—

"(A) the monthly actuarial rate for enrollees age 65 and over, determined according to paragraph (1) of this subsection, for that calendar year, or

"(B) the monthly premium rate most recently promulgated by the Secretary under this paragraph, increased by a percentage determined as follows: The Secretary shall ascertain the primary insurance amount computed under section 215(a)(1), based upon average indexed monthly earnings of $900, that applied to individuals who became eligible for and entitled to old-age insurance benefits on November 1 of the year before the year of the promulgation. He shall increase the monthly premium rate by the same percentage by which that primary insurance amount is increased when, by reason of the law in effect at the time the promulgation is made, it is so computed to apply to those individuals for the following November 1.

42 USC 415.

Whenever the Secretary promulgates the dollar amount which shall be applicable as the monthly premium for any period, he shall, at the time such promulgation is announced, issue a public statement setting forth the actuarial assumptions and bases employed by him in arriving at the amount of an adequate actuarial rate for enrollees age 65 and older as provided in paragraph (1) and the derivation of the dollar amounts specified in this paragraph.

"(4) The Secretary shall also, during September of 1983 and of each year thereafter, determine the monthly actuarial rate for disabled enrollees under age 65 which shall be applicable for the succeeding calendar year. Such actuarial rate shall be the amount the Secretary estimates to be necessary so that the aggregate amount for such calendar year with respect to disabled enrollees under age 65 which will equal one-half of the total of the benefits and administrative costs which he estimates will be payable from the Federal Supplementary Medical Insurance Trust Fund for services performed and related administrative costs incurred in such calendar year with respect to such enrollees. In calculating the monthly actuarial rate under this paragraph, the Secretary shall include an appropriate amount for a contingency margin.".

42 USC 1395r.

(2) Subsections (d), (e), (f), and (g) of section 1839 of such Act are redesignated as subsections (b), (c), (d), and (e), respectively.

(3)(A) Section 1839(b) of such Act (as so redesignated) is amended by striking out "subsection (b), (c), or (g)" and inserting in lieu thereof "subsection (a) or (e)".

(B) Section 1839(d) of such Act (as so redesignated) is amended by striking out "purposes of subsection (c)" and inserting in lieu thereof "purposes of subsection (b)".

(C) Section 1839(e) of such Act (as so redesignated) is amended—

(i) by striking out "(c)", "(c)(1)", and "(c)(3)" and inserting in lieu thereof "(a)", "(a)(1)", and "(a)(3)", respectively,

(ii) by striking out "June 1983" in paragraph (1) and inserting in lieu thereof "December 1983", and

(iii) by striking out "July 1985" and inserting in lieu thereof "January 1986" each place it appears.

42 USC 1395i-2.

(D) Section 1818(c) of such Act is amended by striking out "subsection (c) of section 1839" and inserting in lieu thereof "subsection (a) of section 1839".

(E) Section 1843(d)(1) of such Act is amended by striking out "without any increase under subsection (c) thereof" and inserting in lieu thereof "without any increase under subsection (b) thereof". 42 USC 1395v.

(F) Section 1844(a)(1)(A)(i) of such Act is amended— 42 USC 1395w.

(i) by striking out "1839(c)(1)" and inserting in lieu thereof "1839(a)(1)"; and

(ii) by striking out "1839(c)(3) or 1839(g)" and inserting in lieu thereof "1839(a)(3) or 1839(e)".

(G) Section 1844(a)(1)(B)(i) of such Act is amended—

(i) by striking out "1839(c)(4)" and inserting in lieu thereof "1839(a)(4)"; and

(ii) by striking out "1839(c)(3) or 1839(g)" and inserting in lieu thereof "1839(a)(3) or 1839(e)".

(H) Section 1876(a)(5) of such Act is amended— 42 USC 1395mm.

(i) in subparagraph (A)(ii), by striking out "1839(c)(1)" and inserting in lieu thereof "1839(a)(1)"; and

(ii) in subparagraph (B)(ii), by striking out "1839(c)(4)" and inserting in lieu thereof "1839(a)(4)".

(b) Section 1818(d)(2) of such Act is amended— 42 USC 1395i-2.

(1) by striking out "during the last calendar quarter of each year, beginning in 1973," in the first sentence and inserting in lieu thereof "during the next to last calendar quarter of each year";

(2) by striking out "the 12-month period commencing July 1 of the next year" in the first sentence and inserting in lieu thereof "the following calendar year"; and

(3) by striking out "for such next year" in the second sentence and inserting in lieu thereof "for that following calendar year".

(c) The amendments made by this section shall apply to premiums for months beginning with January 1984, and for months after June 1983 and before January 1984— Effective date. 42 USC 1395r note.

(1) the monthly premiums under part A and under part B of title XVIII of the Social Security Act for individuals enrolled under each respective part shall be the monthly premium under that part for the month of June 1983, and 42 USC 1395c, 1395j.

(2) the amount of the Government contributions under section 1844(a)(1) of such Act shall be computed on the basis of the actuarially adequate rate which would have been in effect under part B of title XVIII of such Act for such months without regard to the amendments made by this section, but using the amount of the premium in effect for the month of June 1983.

SECTION 1122 AMENDMENTS

SEC. 607. (a) Section 1122(c) of the Social Security Act is amended by striking out "the Federal Hospital Insurance Trust Fund" and inserting "the general fund in the Treasury". 42 USC 1320a-1.

(b)(1) Section 1122(g) of such Act is amended—

(A) by striking out "$100,000" the first place it appears and inserting in lieu thereof "$600,000 (or such lesser amount as the State may establish)", and

(B) by striking out "$100,000" the second place it appears and inserting in lieu thereof "the dollar amount specified in clause (1)".

(2) Section 1861(z)(2) of such Act is amended by striking out "$100,000" and inserting in lieu thereof "$600,000 (or such lesser 42 USC 1395x.

amount as may be established by the State under section 1122(g)(1) in which the hospital is located)".

42 USC 1320a-1.

(c) Section 1122 of such Act is amended by adding at the end thereof the following:

"(j) A capital expenditure made by or on behalf of a health care facility shall not be subject to review pursuant to this section if 75 percent of the patients who can reasonably be expected to use the service with respect to which the capital expenditure is made will be individuals enrolled in an eligible organization as defined in section 1876(b), and if the Secretary determines that such capital expenditure is for services and facilities which are needed by such organization in order to operate efficiently and economically and which are not otherwise readily accessible to such organization because—

"(1) the facilities do not provide common services at the same site (as usually provided by the organization),

"(2) the facilities are not available under a contract of reasonable duration,

"(3) full and equal medical staff privileges in the facilities are not available,

"(4) arrangements with such facilities are not administratively feasible, or

"(5) the purchase of such services is more costly than if the organization provided the services directly.".

42 USC 1395x.

(d) Section 1861(z)(2) of such Act is amended by inserting "(A)" after "(2)" and by adding at the end thereof the following new subparagraph:

"(B) provides that such plan is submitted to the agency designated under section 1122(b), or if no such agency is designated, to the appropriate health planning agency in the State (but this subparagraph shall not apply in the case of a facility exempt from review under section 1122 by reason of section 1122(j));".

Approved April 20, 1983.

LEGISLATIVE HISTORY—H.R. 1900 (S. 1):

HOUSE REPORTS: No. 98-25, Pt. 1 (Comm. on Ways and Means) and No. 98-47 (Comm. of Conference).
SENATE REPORT No. 98-23 accompanying S. 1 (Comm. on Finance).
CONGRESSIONAL RECORD, Vol. 129 (1983):
Mar. 9, considered and passed House.
Mar. 16-18, 21-23, considered and passed Senate, amended.
Mar. 24, House and Senate agreed to conference report.
WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 19, No. 16 (1983):
Apr. 20, Presidential statement.

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release April 20, 1983

REMARKS OF THE PRESIDENT
AT SIGNING CEREMONY FOR
SOCIAL SECURITY ACT AMENDMENTS

The South Grounds

10:29 A.M. EST

THE PRESIDENT: Thank you all very much. Please, sit down, if you can.

Well, I want to extend to all of you a very warm welcome. Something ought to be warm.

But it is especially fitting that so many of us from so many different backgrounds, young and old, the working and the retired, Democrat and Republican, should come together for the signing of this landmark legislation. This bill demonstrates for all time our nation's ironclad commitment to Social Security. It assures the elderly that America will always keep the promises made in troubled times a half a century ago. It assures those who are still working that they, too, have a pact with the future. From this day forward, they have our pledge that they will get their fair share of benefits when they retire.

And this bill assures us of one more thing that is equally important. It's a clear and dramatic demonstration that our system can still work when men and women of good will join together to make it work.

Just a few months ago, there was legitimate alarm that Social Security would soon run out of money. On both sides of the political aisle, there were dark suspicions that opponents from the other party were more interested in playing politics than in solving the problem.

But in the eleventh hour, a distinquished bipartisan commission appointed by House Speaker O'Neill, by Senate Majority Leader Baker and by me began to find a solution that could be enacted into law. Political parties of both parties set aside their passions and joined in that search. The result of these labors in the Commission and the Congress are now before us, ready to be signed into law, a monument to the spirit of compassions and commitment that unites us as a people.

Today, all of us can look each other square in the eye and say, "We kept our promises. We promised that we would protect the financial integrity of Social Security. We have. We promised that we would protect beneficiaries against any loss in current benefits. We have. And we promised to attend to the needs of those still working, not only those Americans nearing retirement, but young people just entering the labor force. And we've done that, too."

None of us here today would pretend that this bill is perfect. Each of us had to compromise one way or another. But the essence of bipartisanship is to give up a little in order to get a lot. And, my fellow Americans, I think we've gotten a very great deal.

A tumultuous debate about Social Security has raged for more than two decades in this country, but there has been one point that has won universal agreement: The Social Security system must be preserved. And rescuing the system has meant re-examining its original intent, purposes and practical limits.

The amendments embodied in this legislation recognize that Social Security cannot do as much for us as we might have hoped when the trust funds were overflowing. Time and again, benefits were increased far beyond the taxes and wages that were supposed to support them. In this compromise we have struck the best possible balance between the taxes we pay and the benefits paid back. Any more in taxes would be an unfair burden on working Americans and could seriously weaken our economy. Any less would threaten the commitment already made to this generation of retirees and to their children.

We're entering an age when average Americans will live longer and live more productive lives. And these amendments adjust to that progress.

The changes in this legislation will allow Social Security to age as gracefully as all of us hope to do ourselves, without becoming an overwhelming burden on generations still to come. So today we see an issue that once divided and frightened so many people now uniting us. Our elderly need no longer fear that the checks they depend on will be stopped or reduced. These amendments protect them. Americans of middle age need no longer worry whether their career-long investment will pay off. These amendments guarantee it. And younger people can feel confident that Social Security will still be around when they need it to cushion their retirement.

These amendments reaffirm the commitment of our government to the performance and stability of Social Security. It was nearly 50 years ago when, under the leadership of Franklin Delano Roosevelt, the American people reached a great turning point, setting up the Social Security System. FDR spoke then of an era of startling industrial changes that tended more and more to make life insecure. It was his belief that the System can furnish only a base upon which each one of our citizens may build his individual security through his own individual efforts. Today we reaffirm Franklin Roosevelt's commitment that Social Security must always provide a secure and stable base so that older Americans may live in dignity.

And now before I sign this legislation, may I pause for a moment and recognize just a few of the people here who have done so much to make this moment possible. There are so many deserving people here today--leaders of the Congress, all members of the Ways and Means and Finance Committees, and members of the Commission, up in front here, but it would be impossible to recognize them all. But, first, can I ask Alan Greenspan and members of the Commission--I was going to say to stand--but there are others that are also standing here--but the other members of the Commission to stand so that we can recognize them. Thank you. And their Chairman, Alan Greenspan.

And, now, as a special treat, I would like to ask two of our leaders from Congress, first--to step forward for a few words, Speaker of the House of Representatives, the Honorable Tip O'Neill.

SPEAKER O'NEILL: Mr. President, Mr. Vice President, my distinquished colleagues in government, this is indeed a happy day.

There are those who would question as to whether or not the Social Security bill was the most important bill that ever did pass the Congress of the United States. Others would say there other acts. But I always believed the Social Security system was the greatest act that ever passed the Congress. It gave respect and it gave dignity to the golden ager of America.

This great country of ours has always gone on the theory that each generation pays for the generation before it. The golden agers of today are the ones who made America great.

I want to congratulate the Committee that the President appointed, that I appointed, that Senator Baker appointed. I want to congratulate the Ways and Means Committee. Jake Pickle was the Chairman of the Subcommittee. Dan Rostenkowski, Barber Conable,

all of the Committee, Senator Pepper from the Aging Committee, all worked together on both sides of the aisle. It shows, as the President said, the system does work. This is a happy day for America. Thank you.

THE PRESIDENT: Thank you.

And, now, the Majority Leader of the Senate, Senator Howard Baker.

SENATOR BAKER: Mr. President, Mr. Vice President, my colleagues on the platform and ladies and gentlemen, it is perhaps one of the littlest noticed but most important aspects of the civility of American government that on occasion we rise above politics, we rise above confrontation and we address, on a bipartisan basis, the great challenges and issues that confront the republic. Sometimes it has been on issues of war and peace. Sometimes it has been on issues of the rights and opportunities of minorities and individuals within our country, once on the salvation of the Union itself.

But there is a canny understanding in the American political system that sometimes there are issues that are more important than any of us, or perhaps all of us, taken together. The preservation of the Social Security system is one of those issues. And in the uniquely American way, those of us who participate in government, Republicans and Democrats together, public and private citizens, gather together and subordinated our own views to those of the welfare of the majority.

Mr. President, I commend you, sir. I commend the members of this Commission. I commend my colleagues in the Congress, the committees directly involved and those members who are so intimately involved in this sensitive political issue on a successful conclusion of another chapter in the real greatness of the American political system. That is, the subordination of our own particular political ambition in favor of the greater good.

I thank you.

THE PRESIDENT: Thank you, gentlemen. And thank all of you for being with us today. I know some of you have come a long distance just to participate in this ceremony. We have shared an historic moment, for in signing these amendments into law, we've restored some much needed security to an uncertain world.

And I am now going over and sign, and as you can notice how cold it is, twelve pens there are too cold -- they can only sign one letter, each pen.

If my name came out to thirteen letters, I would have misspelled it.

/S/Ronald Reagan
THE PRESIDENT: It's signed.

END 11:45 AM EST

THE WHITE HOUSE

Office of the Press Secretary

For Release at 10:30 a.m.
Wednesday, April 20, 1983

SOCIAL SECURITY AMENDMENTS OF 1983

Highlights of Major Provisions

Today, President Reagan signed into law the historic Social Security Amendments of 1983. Based on recommendations by the bipartisan Commission on Social Security Reform established on December 16, 1981, the new law resolves both short- and long-term threats to the Social Security system.

I. SOCIAL SECURITY CHANGES

Taken together, the provisions assure a balance of revenues and expenditures that will eliminate the crisis that had been facing the Social Security system in this decade and make structural reforms which will bring the long-range costs of the program into line with program revenues. The law provides for a total of $166 billion during 1983-1989 in additional taxes and income, and reduced expenditures. The law also makes reforms that address the serious long-range financing problems that the program had faced early in the next century because of changing demographic factors.

Retirement Age/Reduction for Early Retirement -- Gradually increases normal retirement age to 66 by 2005 and 67 by 2022. The retirement age would increase by 2 months a year from 2000 to 2005 and from 2017 to 2022. Does not change age of eligibility for Medicare or the availability of reduced benefits at 62 (60 for widows).

Coverage of Newly Hired Federal Employees -- Covers Federal employees hired on or after January 1, 1984, plus all Members of Congress and the President, the Vice President, Federal judges, and other executive level political appointees of the Federal government effective January 1, 1984.

Coverage of Employees of Nonprofit Organizations -- Covers current and future employees of private tax-exempt nonprofit organizations effective January 1, 1984.

Prohibit Termination of Coverage of State and Local Government Employees -- Prohibits States from terminating coverage of State and local government employees if the termination has not gone into effect by the date of enactment. Also, permits State and local groups whose coverage has been terminated to be covered again.

Shift Cost-of-Living Adjustments to Calendar Year Basis -- Delays the July 1983 cost-of-living adjustment (COLA) to January 1984 and provides for future automatic COLA's on a calendar year basis, with the increase payable in January, rather than in July of each year. The SSI benefits increase and SMI premium increase will also be delayed to January 1984 and placed on a calendar year basis.

Cost-of-Living Increases to be Based on Either Wages or Prices (Whichever is Lower) When Balance in OASDI Trust Funds Falls Below Specified Level -- "Stabilizer" -- Limits future automatic increases to the lesser of the increase in wages or prices when the ratio of the combined OASDI trust fund assets to estimated outgo falls below a given percentage. The "triggering" trust fund percentage is 15 percent through 1988 and 20 percent for 1980 and later.

The legislation also includes a catch-up provision for making up for any benefit increases that are based on the lower wage increases, when the trust fund ratio reaches 32 percent.

Eliminate Windfall Benefits for Persons Receiving Pensions from Noncovered Employment -- For many workers who are first eligible after 1985 for both a pension based on noncovered employment, and Social Security benefits, applies a different benefit computational method. Specifically, the 90-percent factor now applied to average earnings in the first band of the benefit formula would be replaced by a factor of 40 percent, after a 5-year phase-in. This reduction in Social Security benefits would not exceed one-half of the amount of the pension.

Lower the Withholding Rate Under the Earning Test for Individuals Who Have Attained Full Retirement Age -- Beginning in 1990, decreases the earning test benefit withholding rate from $1 for each $2 of earnings over the annual exempt amount to $1 for each $3 of excess earnings, for individuals who attain full retirement age (age 65 in 1990).

Increase Delayed Retirement Credit -- Beginning in 1990, gradually increases from 3 to 8 percent the delayed retirement credit payable to workers who delay retirement past age 65.

Amend the Government Pension Offset to Allow Spouses with Low Government Annuities to Retain a Portion of Their Social Security Spouse's Benefits -- Provides that for spouses and surviving spouses who become eligible after June 1983 for their public pension based on noncovered employment the amount of the public pension used for purposes of the offset against Social Security benefits will be reduced to two-thirds of the public pension.

Taxation of Social Security and Railroad Retirement Tier 1 Benefits -- Beginning in 1984 subjects up to one-half of Social Security (and railroad retirement tier 1) benefits to the Federal income tax if income exceeds $25,000 for a single taxpayer, or $32,000 for married taxpayers filing jointly.

Employee-Employer Tax Rate Schedule and 1984 Employee Tax Credit -- Advances previously scheduled FICA tax-rate increases for OASDI from 1985 to 1984, and advances part of the scheduled 1990 increase to 1988. The new law also provides, for 1984 only, a credit for employees against their FICA tax liability of 0.3 percent of their wages.

Self-Employment Tax-Rate (SECA) Schedule and Credit -- Increases tax rates on self-employment income for OASDI and HI to equal the combined employee-employer rates. Provides credits against SECA tax liability for 1984-89 equal to a percentage of self-employment income. After 1989, the credit will be replaced with special provisions designed to treat the self-employed in much the same manner as employees and employers are treated for Social Security and income tax purposes under present law.

Allocations to the OADI and DI Trust Funds -- Provides a new allocation schedule of OASDI taxes for employees and employers, each, and the self-employed. The provision does not raise any new revenue but shifts revenue from the DI trust fund to the OADI trust fund. The effect of this reallocation is to put the two parts of the program in roughly comparable financial condition, with the DI program being in slightly more favorable circumstances than OASI.

Interfund Borrowing -- Reauthorizes interfund borrowing among the OASI, DI and HI funds for calendar years 1983-1987.

II. SUPPLEMENTAL SECURITY INCOME CHANGES

Increase in Federal SSI Benefit Standard and Change in Timing of SSI COLA -- Effective July 1, 1983, increase the Federal SSI benefit standard for individuals to $304.30 per month; for couples to $456.40 per month; and for certain other persons to $152.50 per month. In addition, SSI cost-of-living allowances will now occur in January, rather than in July, beginning with January 1984.

III. UNEMPLOYMENT COMPENSATION CHANGES

Modifies and extends for 6 months the Federal Supplemental Compensation program which was due to expire March 31, 1983. This program provides additional weeks of Federally financed unemployment compensation benefits to jobless workers who have exhausted all other State and Federal unemployment benefits.

IV. PROSPECTIVE PAYMENTS FOR MEDICARE INPATIENT HOSPITAL SERVICES

Includes a major change in the method of payment under Medicare for inpatient hospital services. Services would be paid for on a prospective basis according to rates set by the Secretary of HHS. A single payment amount would be paid for each type of case, identified by the diagnosis group into which each case is classified.

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Social Security Amendments of 1983
Legislative History and Summary of Provisions

by John A. Svahn and Mary Ross

Reprinted from the **Social Security Bulletin**, July 1983
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Social Security Administration
SSA Publication No. 13-11700

Social Security Amendments of 1983: Legislative History and Summary of Provisions

by John A. Svahn and Mary Ross*

This article traces the legislative history of the new law from the report, on January 20, 1983, of the recommendations of the National Commission on Social Security Reform (which formed the basis of this legislation) to enactment, on April 20, 1983, of Public Law 98-21. It also analyzes the provisions of Public Law 98-21, which, among other things, delay the annual cost-of-living adjustments in benefits from July to January of each year, make up to one-half of the benefits received by higher-income beneficiaries subject to income taxes, gradually raise the retirement age early in the next century, call for the earlier implementation of scheduled payroll tax increases, and put new Federal employees under the Social Security program. The legislation also establishes a new system of prospective payment for hospital services under Medicare and extends supplementary unemployment compensation benefits that otherwise would have expired in March 1983.

On April 20, 1983, President Reagan signed into law H.R. 1900 (Public Law 98-21), the Social Security Amendments of 1983. In signing the bill the President stated:

> This bill demonstrates for all time our Nation's ironclad commitment to Social Security. It assures the elderly that America will always keep the promises made in troubled times a half a century ago. It assures those who are still working that they, too, have a pact with the future. From this day forward, they have our pledge that they will get their fair share of benefits when they retire . . . .
>
> Our elderly need no longer fear that the checks they depend on will be stopped or reduced. These amendments protect them. Americans of middle age need no longer worry whether their career-long investment will pay off. These amendments guarantee it. And younger people can feel confident that Social Security will still be around when they need it to cushion their retirement.

The President noted that there had been great controversy over how best to deal with the financing issues in Social Security and hailed the legislation as a tribute to bipartisan action and "a monument to the spirit of compassion and commitment that unites us as a people . . . . Each of us had to compromise one way or another. But the essence of bipartisanship is to give up a little in order to get a lot. And, my fellow Americans, I think we've gotten a very great deal."

The 1983 amendments, passed in record time by the 98th Congress, represent a bipartisan effort to deal with serious near-term and long-range financing problems facing the Old-Age, Survivors, and Disability Insurance (OASDI) program under prior law. Since 1975, expenditures of the OASDI program had exceeded revenues and it was anticipated that, without legislative action, it would not have been possible to continue paying OASDI cash benefits on time beginning in July 1983. An estimated $150-$200 billion in increased revenues or reduced expenditures was needed to restore financial viability through the 1980's. Also, the program faced a projected long-range deficit (the excess of average annual expenditures expressed as a percentage of taxable payroll for the next 75 years over average annual tax revenues for the same period) of some 1.80 percent of taxable payroll. The 1983 legislation includes provisions for limiting the future growth in expenditures and increasing revenues so that workers, employers, and beneficiaries will share in measures to bring revenues and expenditures into line both in the near term and over the long range.

The major OASDI provisions of the 1983 amendments are substantially in line with the January 20, 1983, recommendations of the National Commission on

* Svahn served as Commissioner of Social Security from May 1981 to March 1983 and is currently Under Secretary of Health and Human Services. Ross is with the Office of Legislative and Regulatory Policy, Office of Policy, Social Security Administration.

Social Security Reform (NCSSR) [1] and include:

(1) Coverage of new Federal civilian employees and most current executive level political appointees and elected officials (including members of Congress, the President, and the Vice President), and Federal judges, effective January 1984.

(2) Coverage of employees of nonprofit organizations and a ban on the termination of coverage of State and local and nonprofit employment.

(3) Delay of the July 1983 Social Security cost-of-living adjustment (COLA) to January 1984 and a shift of future COLA's to a calendar-year basis (payable in January, rather than July, of each year). The COLA's for Supplemental Security Income (SSI) will be similarly delayed and shifted, as will the date for increases in the Supplementary Medical Insurance (SMI) premium. Also an increase in the SSI payment standard of $20 per month ($30 for couples) is effective beginning July 1983.

(4) A "stabilizer" provision under which automatic annual benefit increases are to be based on the lower of price or wage increases if trust fund balances are low (less than 15 percent of outgo for 1984–88, 20 percent thereafter) and are to be adjusted later to reflect full cost-of-living increases, if trust fund balances rise above 32 percent.

(5) Elimination of windfall benefits for certain workers with pensions from noncovered employment and a gradual increase in the delayed retirement credit from 3 percent to 8 percent per year, fully effective after 2008.

(6) Improvements in benefits for divorced spouses, remarried disabled and divorced widow(er)s, disabled widow(er)s aged 50–59, and certain widow(er)s whose spouse dies many years before the survivor becomes eligible for benefits.

(7) Inclusion of up to 50 percent of Social Security benefits in the taxable income of higher-income beneficiaries and transfer of resultant revenues to the Social Security trust funds.

(8) Revisions in Social Security tax rates: Accelerating scheduled increases for employees and employers and providing a tax credit for employees for 1984; increasing the rates for the self-employed to equal the combined employee/employer rate and providing credits and deductions; and reallocating income between the OASI and DI parts of the program.

(9) Lump-sum reimbursement to the trust funds for the cost of certain noncontributory military wage credits and for unnegotiated Social Security checks.

(10) Additional NCSSR proposals including taxing and crediting certain elective deferred compensation, separation of Social Security trust fund operations from the unified budget, inclusion of two members of the public on the Board of Trustees, and a study of establishing the Social Security Administration as an independent agency.

In addition, the amendments include significant OASDI changes not spelled out in the NCSSR report:

(1) Fail-safe financing mechanisms, including a speedup in the crediting of Social Security tax receipts to the trust funds, extension of interfund borrowing authority (on a broader basis than recommended by the Commission), and a provision requiring the trustees to notify Congress if the trust funds are expected to fall below 20 percent of annual expenditures and to advise on the amount of tax increase or benefit reduction or combined measures needed to restore trust fund balances.

(2) Gradual increase in the age of eligibility for full benefits to age 66 in 2009 and to age 67 in 2027. The earnings test will also be modified so that after 1990 a $1-for-$3 benefit withholding rate will replace the present $1-for-$2 withholding for beneficiaries who have reached the age of eligibility for unreduced retirement benefits.

(3) Additional provisions affecting primarily dependents and survivors, including elimination of virtually all gender-based distinctions and modification of the public (noncovered) pension offset to provide that a person's Social Security benefit as a spouse or surviving spouse will be reduced by two-thirds (rather than 100 percent) of the amount of any pension the person has earned as a worker in noncovered employment.

(4) Additional proposals with a relatively small impact on revenues or expenditures, including acceleration of payment of Social Security contributions for State and local employment, limitations on payments to certain aliens outside the United States and to convicted felons in prison, the expanded use of death certificates in verifying benefit eligibility, and numerous other miscellaneous and technical changes.

The 1983 legislation also includes tax provisions affecting aged and disabled persons who are not beneficiaries, modifications in the SSI program, provisions for prospective payment for inpatient hospital services under Medicare, and an extension of the Federal supplemental compensation provisions of the Unemployment Compensation program. The major features of the system of prospective payment for hospital services under Medicare, which takes effect for hospital accounting years beginning after September 30, 1983, are

(1) Hospitals will be paid a price per discharge using diagnosis-related groups (DRG's). For the first 3 years, separate rates will be determined for each of nine census regions; during this time, there will be a blend of national and regional DRG rates and each hospital's cost base. Separate payment rates will apply to urban and rural areas.

[1] See pages 6–8 for further discussion of the NCSSR and its recommendations.

(2) The Secretary will provide additional payments for "outlier" cases, determined by length of stay as well as dollar threshold criteria. Total payments for outliers will be no less than 5 percent or more than 6 percent of total Medicare payments for inpatient hospital care. (Outlier cases are those involving extraordinary lengths of hospital stays.)

(3) Capital expenses will be specifically excluded from the prospective payment system until October 1, 1986. The rate of return on equity for proprietary hospitals will be reduced from one and one-half times the average rate of return on the HI trust fund to one times the rate.

(4) Direct medical education expenses will continue to be paid on a reasonable-cost basis; an adjustment for indirect medical education costs will be equal to twice the amount of the adjustment used for the present law "section 223" limits on Medicare reimbursement for providers.

(5) Beginning in October 1983, hospitals must enter into agreement with a Peer Review Organization (PRO) if one exists in the area. After October 1, 1984, hospitals will be required to have an agreement with a PRO as a condition of receiving Medicare payment.

(6) The Secretary will be required to make Medicare payments under a State's hospital cost control system if the system meets a number of statutory requirements.

(7) A number of studies and reports to Congress on various issues in prospective payment are required.

Part I of this article traces the development of the NCSSR bipartisan package, which contained the major Social Security coverage, benefit, and financing provisions that were included in the 1983 legislation, and the progress of these proposals, together with other Social Security, SSI, and Medicare provisions, through the legislative process. Part II contains a summary description of each of the provisions of Public Law 98-21. Part III briefly describes the effects of the legislation on the financial status of the OASDI and Medicare programs.

I. Background and Legislative History

By the end of the 1970's, it was increasingly clear that developing economic experience was significantly less favorable than had been anticipated in 1977 when major OASDI financing legislation was passed [2] and that the program would experience significant difficulties in the 1980's under then-current economic projections. In June 1980, following enactment of the Social Security Disability Amendments of 1980 (Public Law 96-265), the DI part of the program was estimated to be in relatively good financial condition, with income expected to exceed expenditures for all years after 1981 and a favorable long-range balance of 0.40 percent of taxable payroll. However, the OASI part of the program was projected to have serious financing shortfalls in both the short and long term; the long-range deficit was estimated to be 1.40 percent of taxable payroll.[3]

In October 1980, in Public Law 96-403, the Congress made specific provision for a reallocation of Social Security tax revenues from the DI part of the program to the OASI part of the program for the years 1980-81. In so doing, the Congress specifically noted the interim nature of this provision and stated that further action would be needed to deal with OASI financing in the early 1980's. The Committee on Ways and Means of the House of Representatives noted in its report on the legislation that the effect of the reallocation would be to "maintain sufficient reserves in the OASI fund to pay benefits for approximately an additional year, from late 1981 to late 1982 . . . giving Congress additional time to take further remedial action." The Committee on Finance of the Senate made a similar statement in its report.

Thus, in 1981, when the 97th Congress convened and the Reagan administration took office, Social Security financing issues were a major concern. On February 18, 1981, in announcing his budget and "Program for Economic Recovery" consisting of measures to be taken quickly to improve the economy and stem the growth in Federal programs, President Reagan indicated that—in addition to his immediate recommendations to the Congress, including several OASDI proposals [4]—more fundamental changes would be recommended later. The following day, the then Secretary of Health and Human Services, Richard S. Schweiker, in testimony before the House Ways and Means Committee, announced that, as one of his first actions as Secretary, he had established a high-level group to review all aspects of the OASDI program and consider a wide variety of reform proposals. This group, which included representatives of the White House, the Office of Management and Budget, and congressional staffs and was headed by then Under Secretary David B. Swoap, conducted an intensive 3-month study of the issues confronting the Social Security program.

On May 12, Secretary Schweiker announced the culmination of this activity in a wide-ranging package of OASDI reform proposals,which he said "will keep the system from going broke, protect the basic benefit structure, and reduce the tax burden of American workers." [5] The proposals, which are listed in Appendix A,

[2] See John Snee and Mary Ross, "Social Security Amendments of 1977: Legislative History and Summary of Provisions," **Social Security Bulletin**, March 1978, pages 3-20.

[3] See "Social Security Disability Amendments of 1980: Legislative History and Summary of Provisions," **Social Security Bulletin**, April 1981, pages 14-31.

[4] For information on proposals for 1981, see John A. Svahn, "Omnibus Budget Reconciliation Act of 1981: Legislative History and Summary of OASDI and Medicare Provisions," **Social Security Bulletin**, October 1981, pages 3-24.

[5] **HHS News** (press release), May 12, 1981.

were generally designed to encourage work at later ages, reduce "windfall" benefits, relate Disability Insurance benefits more closely to work history and medical condition, reduce welfare elements, and adjust financing provisions.

While the administration had been developing these proposals and during early congressional considerations of the administration's legislative and budget proposals for fiscal year 1982, there was considerable congressional interest in what further, longer-range proposals the administration might advance. Although, as described in the legislative history of the 1981 Omnibus Budget Reconciliation Act,[6] there was substantial interest on the part of the administration and the Congress in prompt action on the immediate proposals, including the OASDI proposals, that were a part of the President's "Program for Economic Recovery," there was also concern that the administration's OASDI proposals as presented in February 1981 did not solve the near-term financial problems facing the Social Security program and did not fully address the major long-range issues. This concern was particularly prevalent in the Subcommittee on Social Security of the House Ways and Means Committee, whose Chairman, Representative J. J. Pickle (D., Tex.) had indicated that he planned to introduce a comprehensive Social Security bill and to hold hearings covering the full range of Social Security issues. Thus, several of the proposals included in the administration's May 12 recommendations had been considered informally by the Subcommittee on Social Security and were included in H.R. 3207, a Social Security bill introduced by Chairman Pickle in April 1981. Among the provisions in H.R. 3207 that were included in the administration's May 12 proposals were a delay in the COLA, elimination of certain windfall benefits for workers with pensions from employment not covered by Social Security, elimination of the earnings test for older beneficiaries, and interfund borrowing.[7]

Secretary Schweiker testified on the package of reforms before the Select Committee on Aging of the House of Representatives on May 21, before the Social Security Subcommittee of the House Ways and Means Committee on May 28, and before the Subcommittee on Social Security and Income Maintenance Programs of the Senate Committee on Finance on July 7.[8] However, for the most part, the administration's proposals were not generally well received and little serious attention was given to the package as a whole. The most controversial proposal was one that would have increased the amount of the reduction for early retirement (before age 65).

Although the administration indicated its willingness to work with the Congress on possible modifications in the reform proposals and its willingness to consider alternative packages of proposals, it became clear that the 97th Congress would take no major action on Social Security reform. Therefore, in his September 24, 1981, address to the Nation concerning his Economic Recovery Program, President Reagan announced his intent to appoint a blue ribbon commission to review the issues further:

> To remove Social Security once and for all from politics, I am also asking Speaker Tip O'Neill of the House of Representatives and Majority Leader in the Senate Howard Baker to each appoint five members, and I will appoint five, to a task force which will review all the options and come up with a plan that assures the fiscal integrity of Social Security and that Social Security recipients will continue to receive their full benefits.

At the same time, the President announced that he was asking the Congress to restore the Social Security minimum benefit provision for current beneficiaries and to provide for interfund borrowing authority "as a temporary measure to give us time to seek a permanent solution." In December 1981, the Congress acted to modify the minimum benefit provisions of the 1981 Omnibus Budget Reconciliation Act, to make other modifications in the OASDI program, and to provide for temporary interfund borrowing among the OASI, DI, and Hospital Insurance (HI) trust funds.[9] The effect of the borrowing provision was to assure the solvency of the OASDI system through June 1983 without lessening the need for basic changes to assure the solvency of the system thereafter.

On December 16, 1981, President Reagan promulgated Executive Order 12335, which established the National Commission on Social Security Reform (NCSSR) to review the current and long-range financial condition of the Social Security trust funds and to report its findings and recommendations to the President and the Congress by December 31, 1982. In announcing the appointment of the Commission, the White House stated:

> Establishment of the Commission fulfills a pledge made by the President in September to create a bipartisan task force to work with the President and Congress to reach two specific goals:
>
> —To propose realistic, long-term reforms to put Social Security back on a sound financial footing, and

[6] See John A. Svahn, **op. cit.**

[7] H.R. 3207 was an omnibus Social Security bill containing: (a) short-term changes that formed the basis for House consideration of the Social Security legislation that was included in Public Law 97-35, the Omnibus Budget Reconciliation Act of 1981; (b) disability changes later considered as part of H.R. 6181 but not finally acted upon in the 97th Congress; and (c) long-range proposals, including a proposal for a gradual increase in the age of eligibility for unreduced benefits from 65 to 68, which also were not acted on in the 97th Congress.

[8] Hearings were also held on the impact of the proposals on women, on June 3, before the Task Force on Social Security and Women of the House Select Committee on Aging, and on their financing impact, on June 16, before the Senate Special Committee on Aging.

[9] See John A. Svahn, "Restoration of Certain Minimum Benefits and Other OASDI Program Changes: Legislative History and Summery of Provisions," **Social Security Bulletin**, March 1982, pages 3-12.

—To forge a working, bipartisan consensus so that the necessary reforms can be passed into law.[10]

Appendix B contains an excerpt from Executive Order 12335. Appendix C lists the members of the Commission.

The NCSSR reviewed the extensive body of current views and analyses of the Social Security program, including the records of congressional hearings, the views and comments of experts in the field, and the reports of the 1979 Advisory Council on Social Security and the 1981 National Commission on Social Security. In addition, it thoroughly examined a wide variety of alternative approaches to the issues facing the Social Security system. It held nine public sessions throughout 1982.

At its final major substantive session, a 3-day meeting in November 1982, the Commission agreed to a number of major broad issues, but not on a specific plan for dealing with the short- and long-term financing problems. The Commission agreed unanimously on the magnitude of the financing issue: The system needed increased revenues or reduced expenditures of some $150–$200 billion in the 1980's and had a long-range (75-year) deficit of 1.80 percent of taxable payroll. It was also unanimous in the view that the financing problems should be solved without altering the fundamental structure of Social Security or undermining its fundamental principles. In addition, there was strong sentiment to the effect that the law should contain some form of financial "fail-safe"—such as automatic increases in revenues or reductions in expenditures—so that the program could continue through future unforeseen crisis situations, and that there should be some "stabilizer" provision to help insulate the program from economic uncertainties as to the relative rates of increases in wages and prices and to help maintain the financial integrity of the program in times when wages (and therefore tax income) might rise more slowly than prices, upon which cost-of-living adjustments (COLA's) are based.

The Commission also substantially agreed on several specific proposals: coverage of certain payments under deferred compensation plans, the establishment of more current and easily understood trust fund investment procedures, inclusion of two public members on the Board of Trustees of the Social Security trust funds, removal of Social Security trust fund operations from the unified budget, and a study of the feasibility of establishing the Social Security Administration as an independent agency.

Although the Commission was close to agreement on a number of major coverage, tax, and benefit proposals, it was not able in November to formulate a package of proposals that a majority could endorse; nor was it able to reach agreement at its final formal meeting on December 10. Efforts to arrive at such a bipartisan agreement continued through December and into January 1983 as President Reagan twice extended the Commission's reporting date by Executive Orders 12397 and 12402.

On January 15, the Commission announced that it had reached agreement.[11] The President, the Speaker of the House, and other Members of the House and Senate leadership issued statements endorsing the bipartisan package as a whole, though each acknowledged that it contained some provisions that were less attractive than others. Also, each pledged to work for enactment of the Commission's overall package of proposals.

The NCSSR report, formally transmitted to the President and the Congress on January 20, 1983, contained the following bipartisan package:

(1) Covering new Federal employees and employees of tax-exempt nonprofit organizations.

(2) Prohibiting withdrawals from coverage of State and local employees.

(3) Delaying the 1983 Social Security COLA and shifting future COLA's to a calendar-year basis; increasing, in July 1983, the amount of Social Security benefits that can be disregarded for SSI purposes.

(4) Basing automatic benefit increases after 1987 on the lower of the Consumer Price Index (CPI) or wage increases if trust funds are less than 20 percent of outgo, with provision for catch-up increases if funds exceed 32 percent.

(5) Eliminating certain windfall benefits for persons with pensions from noncovered employment.

(6) Increasing the delayed retirement credit gradually from 3 percent before 1990 to 8 percent by 2010.

(7) Provisions affecting primarily women: (a) continuing benefits of disabled and divorced widow(er)s upon remarriage, (b) wage indexing of deferred widow(er)s benefits, (c) paying benefits to divorced spouses regardless of the entitlement or payment status of the eligible worker, and (d) increasing the proportion of the worker's basic benefit (primary insurance amount, or PIA) payable to disabled widow(er)s aged 50–59.

(8) Counting, for income-tax purposes, one-half of the Social Security benefits of higher-income beneficiaries, with the revenues deposited to the Social Security trust funds.

(9) Changing the Social Security tax schedules: (a) shift forward scheduled increases for employees and employers and provide a one-time income-tax credit for employees for 1984, (b) increase

[10] **Public Papers of the Presidents of the United States: Ronald Reagan, 1981**, pages 1158 and 1159.

[11] Twelve of the 15 members of the Commission endorsed this "bipartisan agreement." Those who did not were Representative Archer, Senator Armstrong, and Mr. Waggonner. For a list of Commission members, see Appendix C.

rates for the self-employed and provide an income-tax deduction, and (c) reallocate OASI and DI taxes.

(10) Authorizing interfund borrowing by OASDI from HI.

(11) Crediting the OASDI trust funds with lump-sum payments representing (a) the cost of noncontributory military wage credits and (b) unnegotiated Social Security benefit checks.

Estimates prepared for the NCSSR showed that the Commission's proposals would reduce the revenue/expenditure gap for 1983-89 by $168 billion and reduce the long-range deficit of 1.80 percent of payroll by 1.22 percent.[12] The supporters of the package were divided as to how the remaining deficit (0.58 percent of payroll) should be eliminated. Eight recommended a deferred, gradual increase in the age of eligibility for unreduced benefits and five supported a contribution rate increase in the year 2010, with the employee share of the increase offset by a refundable income-tax credit.

Recommendations to the Congress

On January 25, 1983, President Reagan addressed the Congress on the State of the Union and urged the Congress to enact the NCSSR plan by Easter. He hailed the overall plan as fair and workable, though he expressed reservations about individual proposals. In the State of the Union message, he said:

> There are elements in it [the NCSSR plan], of course, that none of us prefers, but taken together it forms a package that all of us can support. It asks for some sacrifice by all—the self-employed, beneficiaries, workers, government employees, and the better off among the retired—but it imposes an undue burden on none. And, in supporting it, we keep an important pledge to the American people; the integrity of the Social Security system will be preserved—and no one's payments will be reduced.

The following day, the NCSSR recommendations were introduced in Congress as S. 1, by Senator Robert Dole (R., Kans.), a member of the NCSSR and Chairman of the Senate Committee on Finance, with 11 cosponsors.[13] The NCSSR consensus package was incorporated in the administration's budget and legislative recommendations as submitted to the Congress on January 29. The Committee on Ways and Means of the House of Representatives promptly began hearings on the proposals.

Although the administration's budget did not reflect any modifications to the NCSSR package as such, it did include other recommendations that affected the Social Security Amendments of 1983. The budget reflected an across-the-board delay in 1983 cost-of-living increases in entitlement programs, including a shift in the date for the SSI COLA from July 1983 to January 1984. The President's budget also included a number of Medicare proposals, including prospective reimbursement for inpatient hospital insurance services and modifications in the formula for determining the Part B (SMI) premium, and proposals relating to Unemployment Compensation including the Federal supplemental compensation program due to expire at the end of March 1983.

Action in the House of Representatives

Public hearings. On February 1 and 2, 1983, the Committee on Ways and Means of the House of Representatives heard testimony from members of the National Commission on Social Security Reform. Secretary Schweiker, accompanied by John A. Svahn, Commissioner of Social Security,[14] and Dr. Robert J. Rubin, Assistant Secretary for Planning and Evaluation, testified on the NCSSR proposals and on the administration's proposal for prospective payment under Medicare on February 3. The issue of prospective payment was considered by both the Congress and the administration to be of urgency and the Social Security bill was seen as a possible vehicle for this legislation since it was expected to move quickly and was also in the jurisdictions of the Ways and Means and Finance Committees.

With regard to Social Security, the Secretary referred to the urgency and importance of restoring the fiscal integrity of, and the public confidence in, the Social Security system. Further, he stressed the value of the Commission's work in reaching agreement on the kind of legislation that was needed and praised its proposals as "a carefully balanced effort to achieve a solution that can be accepted by the American people as a fair method of putting Social Security on a sound financial basis."

The administration expressed a desire to work with the committee on the resolution of matters left open in the NCSSR report (such as elimination of the remaining long-term deficit) and a desire to avoid upsetting the delicate balance of the consensus package by making

[12] The report included numerous supplemental views of individuals and groups of members. For the supplemental views of Commission members, see chapter 4 of "Report of the National Commission on Social Security Reform," **Social Security Bulletin**, February 1983, pages 13-38.

[13] At the same time, Senator Dole introduced S. 76, a bill reflecting the proposal for increasing the normal retirement age that a majority of the members of the NCSSR had supported. The bill provided for a gradual increase in the age of eligibility for unreduced benefits to 66 (for workers reaching age 62 in 2000-12) with automatic adjustments thereafter based on maintaining the ratio of retirement years to working years that existed in 1990.

[14] During the preceding week, Secretary Schweiker had announced his impending resignation and the President had nominated former Representative Margaret M. Heckler to be Secretary and John A. Svahn to be Under Secretary of HHS. (Under Secretary Swoap had resigned in December.) The new Secretary and Under Secretary were confirmed by the Senate in early March 1983.

major modifications or recommending specific solutions.

In testifying on the administration's proposals for prospective payment to hospitals under Medicare, the Secretary commended the committee on the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which laid the groundwork for further permanent reforms.[15] He also discussed the problems of rising hospital care costs and the potential for dealing with these problems, while maintaining quality of care, through the incentive structure that prospective payment could provide. He described the five primary elements of the administration's plan:

(1) Relating payment to output—putting hospital payment on a per-discharge basis using diagnosis-related groups (DRG's);
(2) Similar payment for similar service in a given geographical area;
(3) Inclusion of all operating costs—although initially capital and medical education costs would be paid separately;
(4) Special provisions for cases involving extraordinary lengths of hospital stays—the "outliers"; and
(5) Primary focus on short-term general hospitals—the proposal would not affect long-term care hospitals or children's and psychiatric hospitals, and special provision would be made for hospitals classified as sole community providers.

In welcoming the administration witnesses, Chairman Dan Rostenkowski (D., Ill.) noted a number of unusual circumstances surrounding congressional consideration of the Social Security legislation that were indicative of the high priority and expedited handling these proposals were to receive. He described a very tight schedule of public hearings and subcommittee and committee markup sessions on the bill. Also, he indicated that there were leadership agreements with other committees (such as Appropriations) that might have a substantive interest in some of the provisions under consideration and with the Rules Committee to expedite consideration of the measure on the floor of the House of Representatives.

The Ways and Means Committee had anticipated the need for new revised cost estimates since the assumptions underlying the 1982 Trustees Report were becoming somewhat dated and those used in estimating the NCSSR package and the budget in January might soon be out of date also. Therefore, the committee requested that, for purposes of the legislation, the 1983 estimates should be prepared earlier than usual and the proposals should be priced out on the basis of those estimates. Estimates based on this request were submitted to the Congress on February 10 and 18, 1983, and showed that, while $150-$200 billion remained a reasonable short-term target, the long-term deficit under the 1983 assumptions was 2.09 percent of taxable payroll, rather than 1.80 percent under the 1982 assumptions. (Also, new estimates were prepared for the NCSSR proposals which showed that they would reduce the long-range deficit by 1.41 percent of payroll, rather than 1.22 percent as under the earlier estimates.)

Also, with regard to the near term, the new estimates showed that there could be severe cash-flow difficulties under the NCSSR package in the period 1983-89. It was possible, however, to overcome this difficulty by crediting the trust funds with revenues anticipated in a given month at the beginning of the month (rather than on a daily basis throughout the month)—a process referred to as "normalization" of tax transfers to the trust funds. Also, the new estimates included the Hospital Insurance program—an area not directly addressed by the NCSSR—using projections reflecting continuation of savings due to the TEFRA provisions on hospital reimbursement. Overall, however, on the basis of these official estimates, the committee was faced with the need to adopt revenue increases or expenditure reductions by the end of 1989 of some $115 billion (under the 1983 intermediate Alternative II-B assumptions) to $200 billion (under the more pessimistic Alternative III assumptions) and to deal with a long-range deficit of about 2.09 percent of taxable payroll.

In addition, in anticipation of the rapidity with which major Social Security legislation might move through the Congress in 1983, the Subcommittee on Social Security had held hearings in December 1982 on H.R. 7326, a bill introduced by Subcommittee Chairman J. J. Pickle (D., Tex.), that contained proposals relating to financial management (such as crediting the trust funds for unnegotiated checks and modifying trust fund investment procedures) and gender-based distinctions in the Social Security program (such as had been passed by the House in 1977 but not included in the final Social Security bill that year [16]) and a number of administrative, technical, and miscellaneous proposals that had been under consideration by the administration and the Congress for some time. On December 6, 1982, Deputy Commissioner Paul B. Simmons, testifying on behalf of the administration, had indicated that the proposals were generally acceptable to the administration. Representative Pickle reintroduced them in 1983 (H.R. 660) for consideration along with the major Social Security proposals of the NCSSR and the administration.

Public hearings on the NCSSR package continued before the Subcommittee on Social Security, with Members of Congress testifying on February 4, and members of the general public testifying the following week. Also, on February 9, members of the NCSSR and, on

[15] For the provisions of this Act, see "Summary of Recent Legislation Affecting SSI, OASDI, and Medicare," **Social Security Bulletin**, July 1983, pages 49-60.

[16] "Social Security Amendments of 1977: Legislative History and Summary of Provisions," **op. cit.**, pages 3-20.

behalf of the administration, Louis D. Enoff, Deputy to the Deputy Commissioner of Social Security, testified on the SSI aspects of the proposals before the Subcommittee on Public Assistance and Unemployment Compensation. General interest was expressed in the potential interaction of the administration's proposal to delay the SSI COLA with the NCSSR proposals for delaying the Social Security COLA and providing a new $30 disregard for SSI recipients with Social Security income in July. There was also concern that additional changes might be needed for SSI recipients who were not also eligible for Social Security.

Subcommittee markup sessions.

Social Security (OASDI). The Subcommittee on Social Security of the House Committee on Ways and Means completed markup sessions on the draft bill in 2 days, February 22 and 23, and submitted its recommendations to the full committee. During markup sessions, there was close scrutiny of a number of the proposals and various far-reaching alternative plans were considered.

Coverage: The subcommittee agreed to the NCSSR proposals for (1) mandatory coverage of newly hired Federal employees after 1983, (2) mandatory coverage of tax exempt nonprofit organizations, and (3) barring future terminations of employees of State and local governments. In addition, they agreed on (1) providing immediate (January 1984) coverage for incumbent Members of Congress and high administration officials, sitting Federal judges, and legislative employees not already under the Civil Service system, (2) making special provision for deemed insured status for older employees of nonprofit organizations to which coverage was newly extended, (3) barring terminations of coverage for employees of nonprofit organizations, and (4) allowing State and local groups that had terminated coverage in the past to become covered again if they so choose.

Also, to help clarify the intent of the basic coverage proposal and the relationship between Social Security coverage and protection under the Civil Service Retirement System (CSRS), the subcommittee approved language for inclusion in the Ways and Means Committee report stating:

> This provision of your Committee's bill does not, and is not intended to, affect in any way the existing civil service retirement provisions or the applicability of such provisions to the newly covered employees and Members of Congress. Federal employees affected by the provision, including Members of Congress, who choose to participate in the civil service retirement program will continue to contribute the full amount to the Civil Service Retirement Fund as required by existing provisions of law, until those provisions are modified by the Congress.
>
> The members of your Committee are firmly committed to the proposition that Federal employees are entitled to comprehensive retirement protection and that a supplemental pension plan should be enacted for Federal employees which would provide such protection. Development of such a plan is the responsibility of the Committee on Post Office and Civil Service, whose Chairman has expressed a similar commitment to developing a supplemental plan.

The subcommittee considered but did not adopt proposals to (1) extend coverage to Federal employees with less than 5 years, or, alternatively, less than 15 years of Federal service and (2) provide for mandatory coverage of only new employees of nonprofit organizations.

Delay of COLA: The subcommittee adopted the NCSSR recommendation and a proposal, for purposes of the 1983 benefit increase only, to waive the requirement that there must be an increase in the Consumer Price Index (CPI) of at least 3 percent.[17] It also agreed to the NCSSR *stabilizer provision* with a pay-back provision that would, on a prospective basis, restore benefit levels for those affected by less than full cost-of-living increases. The subcommittee rejected proposals to (1) prorate the COLA for the year of first eligibility based on the date the worker became eligible for benefits (or died), and (2) shift the effective date of the stabilizer provision from 1988 as recommended by the NCSSR to 1985.

Windfall benefits: The NCSSR had suggested two alternative approaches for reducing windfall benefits of workers with pensions from noncovered employment—one based on calculating average earnings as though the noncovered work had been covered and one based on modifying the weighting in the Social Security benefit formula for workers with pensions based on noncovered work. The subcommittee agreed with the latter approach on advice that the former method would pose nearly insurmountable administrative problems and that generally similar results could be achieved through reducing the heavy weighting in the first part of the benefit formula.

Income tax treatment of benefits: In recommending taxation of 50 percent of the Social Security benefits for individuals with adjusted gross income (AGI) of $20,000 or more ($25,000 for couples), the NCSSR recognized further work would be needed to avoid a severe "notch" effect for beneficiaries with AGI only slightly above these levels and that a number of other aspects of the proposal would need to be worked out. To overcome the "notch" situation in the NCSSR proposal, the subcommittee worked out a plan for in-

[17] In late February, the rate of increase in the CPI was very low and there was some thought that if fuel costs were to drop sharply, the CPI for the first quarter of 1983 might not be 3 percent higher than the CPI for the comparable period in 1982. Since enactment of Public Law 98-21, the CPI for all 3 months of the first quarter of 1983 has become available and, on the basis of the increase in the CPI since the first quarter of 1982, the COLA for December 1983 will be 3.5 percent.

cluding half of the benefits in income used to determine the extent to which benefits would be taxed and increasing the threshold to $24,500 for individuals ($31,500 for couples). Also, following the precedent in existing law governing the income tax treatment of Unemployment Compensation benefits, the subcommittee plan provided for a $0 AGI threshold for married couples filing separately.

The subcommittee considered, but did not adopt, proposals (1) to retain the present nontaxable status of Social Security benefits and (2) to treat Social Security benefits more like other pensions by exempting from taxation only an amount equal to the individual employee's own contributions.

Social Security tax schedules: After consideration of a proposal to delete the income tax credit for employees and one to extend it to employers, the subcommittee agreed to the NCSSR proposals to (1) move the previously scheduled 0.3 percent rate increase (from 5.4 percent for OASDI to 5.7 percent) forward from 1985 to 1984, (2) provide an employee Social Security tax credit for 1984 equal to the Social Security tax increase,[18] (3) increase the rate to 6.06 percent in 1988, thus advancing part of the increase to 6.20 percent previously scheduled for 1990, and (4) make half of the Social Security tax of the self-employed deductible for income tax purposes. The subcommittee decided to set the Social Security tax rate for the self-employed equal to the combined employee-employer rate for HI as well as OASDI and to provide a 0.3 percent Social Security tax credit for the self-employed for 1984, comparable to that provided for employees.

Other NCSSR proposals: The subcommittee agreed to the remaining NCSSR proposals—with the following exceptions: (1) removing trust fund operations from the unified budget, (2) including public members on the Boards of Trustees, and (3) taxing contributions to certain deferred compensation plans. With regard to the unified budget, there were significant jurisdictional considerations involving the House Budget Committee that were left for resolution to the full committee; the Social Security Subcommittee simply agreed to a provision requiring the separate display of trust fund transactions in the budget. In agreeing to the study of establishing Social Security as an independent agency, the subcommittee agreed that the study should address the feasibility as well as the implementation of such a plan. Also, the subcommittee adopted a modification of the proposal relating to trust fund investments to permit payment of interest rates based on short-term Treasury issues (those with maturities of less than 4 years) if such rates were higher than the prevailing long-term rates.

[18] Presumably for purposes of simplicity, the employee tax credit was designed as a credit against the Social Security tax, with the cost being borne by general revenues, rather than as a refundable income-tax credit as recommended by the NCSSR.

Other technical provisions: The subcommittee adopted (1) most of the provisions in the Pickle technical bill, (H.R. 660); (2) a proposal to modify the public pension offset so that Social Security spouse's or surviving spouse's benefits would be reduced by one-third (rather than 100 percent) of any pension the individual had based on his or her own work in noncovered public employment; and (3) some additional minor and technical provisions were also adopted.

Fail-safe: Some members of the subcommittee expressed concern that the provision for normalization of tax transfers—crediting the trust funds at the beginning of the month with revenues to be received during the month—was a tacit general revenue subsidy. The subcommittee agreed to the provision nonetheless and defeated an amendment that would have required the payment of interest by the trust funds on such normalized tax receipts. Concern was also expressed that extension of the interfund borrowing authority, with possible further borrowing from the HI trust fund, might cause a delay in repayment of funds already borrowed and/or weaken the financing of the HI program. Therefore, the subcommittee included safeguards to assure timely repayment of amounts borrowed and to preclude borrowing from any fund that was low.

The subcommittee considered but rejected a proposal to give the Social Security trust funds authority for short-term borrowing from the general funds of the Treasury as a means of assuring that there would always be funds available to meet benefit payments on a timely basis. Instead, the subcommittee adopted provisions requiring the Managing Trustee to (1) notify the Congress in the event that he determines that borrowing from the general fund is necessary to assure timely benefit payments and (2) submit a possible general fund borrowing plan that would include provisions for full repayment within 2 years. Such a plan could not take effect without explicit congressional approval.

Long-range deficit: To eliminate the remaining deficit of 0.68 percent of taxable payroll, the subcommittee adopted a proposal that included both a future benefit reduction and a future tax increase. This two-part, long-range proposal would have (1) gradually reduced initial benefit levels (replacement rates) by about 5 percent through reduction of benefit formula factors over the period 2000–07 (for a saving of 0.40 percent of taxable payroll) and (2) increased the Social Security tax rate in 2015 from 6.20 percent for employees and employers each to 6.44 percent each (for an increase in revenues equivalent to 0.28 percent of payroll over the long range). This proposal was agreed to after the subcommittee had considered alternatives that would have provided for gradually increasing the age of eligibility for unreduced benefits after the turn of the century and agreed that such proposals should be brought up later before the full committee.

The subcommittee also considered, but did not agree to, several alternative comprehensive proposals designed to meet the long-range deficit. These proposals, offered by Representative Archer (R., Tex.), the ranking minority member on the subcommittee and a member of the NCSSR who had not subscribed to the bipartisan package, included separate packages that would have

(1) increased the normal retirement age (the age at which unreduced benefits are paid) to 66 in 2010 and 67 in 2020, with automatic adjustments to changes in longevity thereafter, and eliminated the earnings test for persons who attained retirement age in 2001;

(2) increased the delayed retirement credit from 3 percent to 8 percent per year, increased the reduction for early retirement (at age 62) from 20 percent to 30 percent (with liberalizations in the disability and SSI provisions for workers aged 62-65), liberalized the earnings test, and—if experience were to show that the average age at retirement had not increased—gradually increased the retirement age for full benefits beginning in 1995, a plan based on a "work promotion program" advanced by the American Association of Retired Persons;

(3) gradually reduced the factors in the benefit formula by 10 percent over the period 1990-99; and

(4) incorporated, beginning in the 1990's, provisions based on a plan prepared by Michael Boskin, Professor of Economics at Stanford University, and advanced by the National Federation of Independent Business that would generally shift "social adequacy" aspects of Social Security to general fund financing (and provide payments through a revised needs-based program), relate retirement benefits directly to the worker's tax contributions, and include elements of an earnings-sharing system.

The subcommittee also considered and did not agree to an alternative plan involving the use of part of a worker's Social Security contributions for the purchase of special "Social Security bonds."

Supplemental Security Income: Meanwhile, the Subcommittee on Public Assistance and Unemployment Compensation held markup sessions on SSI and Unemployment Compensation. With regard to SSI, there was general agreement that, on an ongoing basis, the SSI and Social Security COLA's should occur at the same time. However, concern was expressed about protecting SSI recipients who were not also Social Security beneficiaries (and who would not, therefore, benefit from the NCSSR proposal for a new $30 SSI disregard of Social Security benefit income) from the effect of a delay in the July 1983 COLA's to January 1984.

After exploring various alternatives, the subcommittee agreed, on February 24, to provisions that would

(1) Shift the July 1983 SSI COLA to January 1984 and continue to provide January COLA's thereafter at the same time as Social Security COLA's and in the same amounts;

(2) Provide for a one-time (July 1983) increase in the SSI payment standard for all recipients of $20 per month for individuals ($30 for couples); [19] and

(3) Provide an additional option for States to meet the passthrough requirement by allowing them to substitute the supplementary payment levels in effect March 1983 for those in effect December 1976 as the basic payment levels the States must maintain. With regard to the increase in the Federal SSI standard in July 1983, the provision would have required the States to pass through only as much as would have been required if the SSI COLA were not changed to January 1984.

Medicare: The Subcommittee on Health marked up its part of the package on February 24, focusing almost exclusively on the prospective reimbursement aspects of the administration's Medicare proposals. The subcommittee adopted the following modifications in the administration's prospective payment proposals:

(1) There would be two standard rates for each diagnosis-related group—one for urban and one for rural hospitals.

(2) The adjustment for indirect costs of medical education would be doubled.

(3) For the first year only, 50 percent of each hospital's payment amount would be determined based on prospective payment and 50 percent would be determined by the per-discharge amount represented by the hospital's growth rate under TEFRA, subject to section 223 limits.

(4) For fiscal years 1984 and 1985, payment amounts would be increased annually by the hospital market basket index plus 1 percent. However, there would be an overall limitation designed to maintain budget neutrality. Beginning with fiscal year 1986, a panel of independent experts would be convened to review the appropriateness of the update factor and would make recommendations to the Secretary.

(5) The Secretary would be authorized to make Medicare payments under a hospital cost containment system in those States in which the State system met certain requirements.

(6) The Secretary would be authorized to issue regulations providing for exceptions and adjustments as deemed appropriate (including public and teaching hospitals).

(7) The Secretary would submit to Congress within 1 year legislative recommendations for including capital-related costs and return on net equity under prospective payment.

(8) Only the adequacy of the amount of the payment and the establishment of the DRG classification would be specifically excluded from administrative and judicial review.

[19] The increases in the SSI payment standard took into account the application of the delay of the COLA to the SSI program and replaced the NCSSR proposal for a $30 disregard of Social Security increase.

(9) Hospitals would be required to contract with a utilization and quality control peer review organization as a condition of receiving payment under Medicare.

The subcommittee also agreed that the date for changes in the Supplementary Medical Insurance (SMI) premium—the monthly amount paid by aged and disabled persons who are enrolled in the SMI part of the Medicare program—should be shifted, with the Social Security COLA increases, from July to January of each year. The SMI premium is generally deducted from a person's Social Security cash benefits and increases in the premium have traditionally been timed to coincide with increases in the cash benefits. (The date for increases in HI premiums paid by certain persons enrolled in the HI program but not eligible for cash benefits was also shifted from July to January.)

Thus, by the week of February 28, the various subcommittees had completed action on their parts of the legislation and the entire package was ready for consideration by the full committee.

Markup sessions by the full Ways and Means Committee. The Committee on Ways and Means held markup sessions on the proposals as submitted by the various subcommittees on March 1 and 2. The committee agreed to most of the provisions as reported by the subcommittees.

Social Security (OASDI).

Coverage: The committee agreed to the subcommittee provisions with two modifications: (1) a provision applying the earnings test to pay received by retired judges who assume a judicial workload, and (2) a phasing-in of the subcommittee's provision dealing with deemed insured status for newly covered older employees of nonprofit organizations. The committee also defeated proposals to (1) delete coverage of Federal employees and provide instead a general revenue contribution equal to the Social Security tax that would have been paid with respect to Federal employment and (2) allow members of groups who objected to coverage on religious grounds (for example, the Amish) to opt out.

Delay of COLA's: As in the subcommittee, there was little discussion of the proposed COLA delay but some concern was expressed as to whether more fundamental changes should be made to safeguard the future stability of the program. Some members thought the *stabilizer provision*, under which the annual benefit adjustment would be based on the lower of CPI or wage increases if the trust fund ratios were low, should take effect earlier than 1988. However, no change was agreed to.

Income tax treatment of benefits: The committee further modified the provisions for taxing benefits by (1) rounding the tax threshold amounts to $25,000 ($32,000 for couples) and (2) clarifying that the provisions extended to Tier I (and not Tier II) benefits under the Railroad Retirement program. The committee also considered the possibility that the small differential between individuals and couples might result in a "marriage penalty" and that the $0 threshold for couples filing separate returns might seem unfair. However, no adjustments were made in these thresholds.

Social Security tax schedules: For the self-employed, the committee adopted a schedule of Social Security tax credits amounting to 1.8 percent for 1984 and 1.9 percent thereafter, in lieu of the income-tax deduction in the subcommittee bill. These credits would apply against the Social Security tax liability, with the cost being met from general revenues. The committee rejected proposals to (1) provide a more gradual schedule of Social Security tax increases for the self-employed, (2) eliminate the increase in the Hospital Insurance (HI) tax rate for them, and (3) provide an employer tax credit for 1984.

Other NCSSR proposals: When the committee reviewed the issue of removing Social Security trust fund operations from the unified budget, Representative Jones (D., Okla.), Chairman of the House Budget Committee (a member of the Ways and Means Committee, though not a member of its Subcommittee on Social Security) indicated that he could accept a proposal to remove the trust fund operations from unified budget totals. The subcommittee proposal for a separate budget category for the trust funds was modified to achieve this result.

The committee also agreed to amendments relating to the Social Security tax treatment of (1) employer contributions to simplified employee pension (SEP) plans, (2) contributions under certain deferred compensation plans (as recommended by the NCSSR) and cafeteria plans, and (3) contributions for tax sheltered annuities. In addition, the committee agreed to an amendment codifying the Supreme Court decision in *Rowan Companies, Inc.* v. *United States* (1981) that the value of meals and lodging furnished to an employee for the convenience of the employer is not wages for Social Security coverage and tax purposes. Codification of this decision provides a clear statutory precedent for different treatment of the same income for Internal Revenue Service and Social Security purposes.

Other technical provisions: The committee generally agreed with the technical provisions included in the subcommittee bill. In addition, the committee considered and rejected on a 16–16 tie vote a proposal to limit the payment of Social Security benefits to aliens outside the United States. When this proposal was not agreed to, Representative Pickle, Chairman of the Subcommittee on Social Security, indicated that the subcommittee would hold hearings later in the year on the subject of payment of Social Security benefits to aliens and to others outside the United States.

Fail-safe: The committee modified the fail-safe provisions to (1) provide for the payment of interest by

the trust funds to the general fund with respect to normalized tax transfers and (2) replace the specific references to recommendations by the Managing Trustee of a plan for general fund borrowing with a reference to whatever recommendations the Board of Trustees might make to deal with seriously low trust fund balances. The committee rejected a proposal to delete the provision for normalized tax transfers and substitute authority for short-term borrowing from the general fund.

Long-range deficit: The committee agreed to report the subcommittee provision for both increasing Social Security taxes and reducing benefits in the next century to deal with the long-range deficit. However, there was discussion of alternatives involving (1) paying less than the full COLA to beneficiaries under the normal retirement age as is done in the CSR system, (2) revising the benefit formula and relating benefits to length of service under Social Security, and (3) other alternatives similar to those that had been considered in the subcommittee. Also, several members expressed a preference for a gradual increase in retirement age over the two-pronged approach the subcommittee had adopted.

Chairman Rostenkowski assured the members of the committee that there was an understanding with Representative Claude Pepper (D., Fla.) Chairman of the Rules Committee and a member of the NCSSR, that two amendments would be in order when the Social Security bill was considered on the House floor: amendments to strike the long-range provisions of the committee bill and to substitute, alternatively (1) a proposal to eliminate the long-range deficit solely by increasing the retirement age or (2) a proposal to eliminate the deficit solely through increasing taxes in the 21st century. With this understanding, the committee agreed to report out the bill with the long-range provisions as recommended by the subcommittee for a tax increase in 2015 and a gradual 5-percent reduction in initial benefit levels.

Supplemental Security Income: The committee also considered and modified the SSI provisions that had been recommended by the Subcommittee on Public Assistance and Unemployment Compensation. The committee modified the passthrough provision so that it would require, rather than allow, States to maintain their March 1983 payment levels, and it also adopted additional amendments to

(1) Allow up to 3 months (in any 12-month period) of SSI payments to individuals who are temporarily residing in public emergency shelters for the homeless; and

(2) Disregard, as countable income, in-kind assistance provided by private nonprofit organizations to recipients of SSI and Aid to Families with Dependent Children (AFDC).

Medicare: The committee made the following modifications in the subcommittee's recommendations:

(1) Separate DRG rates would be established for each of the nine census divisions, which additionally would be broken down by urban and rural rates. This regional formula would "sunset" after the fourth year unless Congress took action to maintain it.

(2) The system would be phased in over a 4-year period. Twenty-five percent of the payment would be determined under the prospective system in the first year, 50 percent in the second, 75 percent in the third. The remainder of the payment would be determined on the hospital's per-discharge amount established under TEFRA.

(3) At least 4 percent of the cases would be treated as outliers (atypical cases).

(4) The report on including capital-related costs and return on equity would be due by December 31, 1983. The return on equity for proprietary hospitals would be phased out over a 4-year period.

(5) The administration's fiscal year 1984 proposal that prohibits payment under Part B for inpatient services (other than physician services) was approved. If the hospital had such arrangements in effect before October 1982, the Secretary could continue the billing arrangements during the transition period.

(6) The Secretary of HHS would be required to collect data in 1984 on physician charges in each DRG. The Secretary would make recommendations by January 1, 1985, on the advisability and feasibility of including physicians' payments in DRG's.

The committee bill was introduced as H.R. 1900, "The Social Security Act Amendments of 1983," on March 3, and was formally reported to the House on March 4. Cost estimates for the OASDI provisions of the committee bill showed that it would increase revenues and reduce expenditures by a total of $165 billion through 1989 and produce a positive long-range balance of 0.03 percent of taxable payroll.

Action in Rules Committee. On March 8, 1983, the Rules Committee of the House of Representatives considered and reported to the House floor H.R. 1900, with a modified closed rule. Under the rule, only the following substantive amendments, which would be considered as substitutes for the committee's long-range financing provisions, would be in order:

- An amendment, to be sponsored by Representative J. J. Pickle, Chairman of the Social Security Subcommittee of the Ways and Means Committee, to eliminate the long-range deficit solely by increasing the age of eligibility for unreduced retirement benefits; and
- An amendment, to be sponsored by Representative Claude Pepper, Chairman of the Rules Committee and member of the NCSSR, to substitute a provision to eliminate the long-range deficit solely by increasing Social Security payroll tax rates beginning in 2010.

Before adopting the rule, the committee defeated a proposal that would have permitted consideration of certain other amendments to the bill: (1) a delay in the effective date of coverage of newly hired Federal employees and other Federal officials (including Members of Congress) under Social Security or (2) elimination of the entire provision relating to coverage of Federal employees.

House floor action. On March 9, the House of Representatives debated the Social Security bill. The general debate focused on the fact that, although there were many provisions in H.R. 1900 that individuals or certain groups might find troublesome, there was an overriding need to deal effectively with the Social Security financing issues. The retirement age proposal offered by Representative Pickle, which called for increases in the age at which full retirement benefits are payable to age 66 by the year 2009 and to age 67 by the year 2027, was approved by a vote of 228-202. Under the amendment, reduced retirement benefits would continue to be paid beginning at age 62, but the maximum reduction would increase from 20 percent to 25 percent by 2005 and to 30 percent by 2022. Also, the provision called for a Departmental study, by January 1, 1986, of the possible effects of the increase in the retirement age, especially with respect to workers who for health or other reasons could not extend their working careers.

The House then debated the substitute amendment offered by Representative Pepper to raise the OASDI tax rate from 6.20 percent to 6.73 percent beginning in 2010. This amendment was defeated by a vote of 296-132. Had the amendment passed, it would have superseded Representative Pickle's amendment. The House then rose (Social Security bills are generally debated, as was H.R. 1900, by the House sitting as a Committee of the Whole) and voted (230-200) to consider the bill as reported by the Ways and Means Committee and as amended by the Pickle retirement-age proposal.

During the general debate, Chairman Rostenkowski stated that there was nothing in the legislation that would harm the Federal employees retirement system, and gave assurance that the protection of those in the Civil Service Retirement System would not be impaired. Representative Ford (D., Mich.), Chairman of the House Post Office and Civil Service Committee, indicated his intention to develop a supplemental civil service plan that would be fair to new workers coming into the system and would not impair the integrity of the Civil Service fund.

The House then passed H.R. 1900, as it had been amended, by a vote of 282 to 148, on the evening of March 9.

Provisions of House-passed bill

Provisions based on NCSSR recommendations:

(1) Mandatory coverage of new Federal employees and current Members of Congress, the President, the Vice President, current legislative employees not under the Civil Service Retirement System, and most current executive-level political appointees, including current Federal judges, effective January 1984.

(2) Mandatory coverage of employees of nonprofit organizations, with a provision for deemed fully insured status for older employees affected by the change, effective January 1984, and a prohibition against coverage terminations.

(3) Prohibition of State and local coverage terminations and removal of prohibition against coverage of previously terminated entities.

(4) Delay in the 1983 COLA for 6 months and shift in future COLA's (including both Social Security and SSI COLA's and Medicare premium increases) to a calendar year basis.

(5) Stabilizer provision for basing Social Security and SSI benefit increases on lesser of CPI or wage increases if after 1987 trust fund ratios fell below 20 percent of expected outgo (with prospective catch-up provision if trust fund ratios then rose above 32 percent).

(6) Windfall benefit provision for workers with pensions from noncovered employment that would apply a less weighted Social Security benefit formula, using 61 percent rather than 90 percent of average indexed monthly earnings in the first bracket of the benefit formula.

(7) Gradual increase in the delayed retirement credit from the present 3 percent per year for workers reaching age 65 before 1990 to 8 percent per year for workers reaching the age of eligibility for unreduced benefits in 2009 or later. Reduction from 72 to 70 in the age beyond which no delayed retirement credits can be earned.

(8) Income taxation of up to half of Social Security benefits for higher-income Social Security and Railroad Retirement Tier I beneficiaries.

(9) Adjustments in income tax credits for the elderly and the disabled.

(10) Acceleration of scheduled Social Security tax increases for employees and employers and 1984 Social Security tax credit for employees.

(11) Revised Social Security tax schedule for the self-employed and tax credit against Social Security taxes.

(12) Reallocation of Social Security tax revenues between OASI and DI trust funds.

(13) Continuation of benefits for disabled and divorced widow(er)s who remarry.

(14) Payment of benefits to divorced spouses regardless of the entitlement or payment status of the eligible worker.

(15) Indexing of deferred widow(er)s benefits based on wage (rather than price) increases since the worker died.

(16) Increase in percentage of worker's benefit payable to disabled widow(er)s aged 50-59.

(17) Fail-safe provisions: (a) normalization of tax

transfers, (b) extension of interfund borrowing authority, and (c) recommendations by the Boards of Trustees to remedy trust fund balance inadequacies.

(18) Provision for lump-sum transfers from the general fund to the trust funds to cover costs of noncontributory military wage credits and unnegotiated Social Security checks.

(19) Social Security taxation of contributions to, and payments under, certain deferred compensation plans and codification of *Rowan* decision.

(20) Revision of trust fund investment procedures to eliminate anomalies and permit payment of current interest rates on total assets.

(21) Presentation of Social Security trust fund operations as a separate budget category effective for 1984 and exclusion of such operations from the unified budget, beginning in fiscal year 1989.

(22) Provision for congressional study of implementation and feasibility of establishing the Social Security Administration as an independent agency.

Long-term provisions:

(1) Gradual increase in the retirement age to 66 in 2009 and 67 in 2027 (2011 and 2029 for widow(er)s). Reduced benefits (30 percent reduction for workers) would be available at age 62 and Medicare at age 65.

(2) Secretarial report to Congress, by January 1, 1986, on the effects of increasing the retirement age.

Other Social Security provisions:

(1) Increase in interest rate charged on late deposits of Social Security contributions by States.

(2) Study of "float" period between issuance of Social Security checks and the time the checks are negotiated.

(3) Modify noncovered pension offset to reduce Social Security dependent or survivor benefits by one-third (not 100 percent) of any pension the individual earned in noncovered public employment.

(4) Elimination of certain gender-based distinctions relating to: (a) divorced husbands, (b) remarriage of surviving spouse, (c) illegitimate children, (d) transitional insured status, (e) payments for the noninsured (Prouty payments), (f) father's insurance benefits, (g) effect of marriage involving certain disabled beneficiaries, (h) credit for certain military service, and (i) treatment of deductions for failure to have a child beneficiary in one's care and for the foreign work test.

(5) Modifications relating to Social Security coverage provisions to (a) extend coverage on an optional basis to certain employees of foreign affiliates of American employers, (b) conform Social Security tax and coverage treatment of earnings subject to the foreign earned income exclusion, (c) cover standby pay after age 62 as wages, (d) treat multi-employer sick pay plans as agents of employers with respect to payment of Social Security taxes, and (e) revise obsolete reference to names of State and local coverage groups in Utah.

(6) Modifications in provisions relating to international Social Security agreements to: (a) reduce congressional review period for such agreements and (b) impose Social Security taxes if an agreement provides for coverage under the U.S. Social Security system.

(7) Substitution of 45-hour test for 7-day work test for beneficiaries outside the U.S.

(8) Technical and conforming amendments to maximum family benefit provisions.

(9) Relaxation of insured-status requirements for certain workers previously entitled to a period of disability.

(10) Protection of benefits of illegitimate children of disabled beneficiaries.

(11) Provision for 1 month's retroactivity of reduced widow's and widower's insurance benefits.

(12) Reaffirmation of existing provisions assuring that Social Security benefits are not assignable in bankruptcy cases.

(13) Provision to facilitate use of death certificates to prevent erroneous benefit payments to deceased individuals.

SSI provisions:

(1) (a) Increase in the Federal SSI benefit standard for individuals of $20 per month ($30 for couples and $10 for essential persons) effective July 1983, and (b) delay the SSI COLA from July 1983 to January 1984.

(2) Modification in the Federal passthrough provisions to require States to maintain the supplementation levels in effect in March 1983, rather than those in effect in December 1976. In addition, with regard to the increased Federal SSI standard for July 1983, States would be found to meet the passthrough requirements if they pass through only the amount that would have been required if the SSI COLA had not been delayed to January 1984 (rather than the full increase in the payment standard).

(3) SSI eligibility for individuals who reside in public emergency shelters for the homeless for no more than 3 months in any 12-month period.

(4) Disregard of in-kind support and maintenance for individuals under the SSI and AFDC programs when furnished by private nonprofit organizations.

Medicare provisions:

Establishment of a program of Medicare payments for inpatient hospital services based on prospective rates, phased in over a 4-year transition period (as described earlier).

Unemployment Compensation provisions:

Extension of Federal supplemental compensation program. Also, miscellaneous provisions dealing with: (a) voluntary health insurance programs and (b) the treatment of certain organizations retroactively determined to be described in section 501(c)(3) of the Internal Revenue Code of 1954.

Action in the Senate

Action in the Finance Committee. On February 15 and 16, following public hearings in the House, the Senate Finance Committee heard testimony from members of the NCSSR and from the administration. The administration reiterated its support for the NCSSR package, summarized the recent history of Social Security financing and the causes of the financing problems, and described (without endorsement) possible ways of dealing with the long-range financing situation. In the week of February 21, the Finance Committee continued public hearings, during which witnesses representing various groups commented on individual aspects of the NCSSR package, including especially short- and long-range financing, COLA-delay, and benefit-taxation proposals.

On March 9, 1983, the day H.R. 1900 was passed by the House of Representatives, the Senate Finance Committee began markup sessions on the bill. H.R. 1900 was "held at the desk" when it was received after passage by the House of Representatives, so that, technically, only S. 1 was before the committee for consideration. For markup purposes, however, the committee had before it a staff paper describing the NCSSR recommendations, the comparable provisions in S. 1 and in H.R. 1900, and, in some instances, a staff suggestion as to the preferable approach. Ultimately, the committee reported S. 1 with amendments and the committee-approved version of S. 1 was incorporated into "Amendment Number 516" and considered on the Senate floor as an amendment to H.R. 1900.

Thus, while the Senate Finance Committee markup sessions (which concluded on March 10) related technically to S. 1, the committee was in a position to consider the range of proposals that had been considered in the House and, of course, related matters that members wished to raise. During their two days of the markup sessions, the committee agreed to a system of prospective payment for hospitals under Medicare and to the NCSSR bipartisan package, but many of the same issues that had proved troublesome in the House also posed difficulties in the Senate, as described below.

Social Security (OASDI).

Coverage: The committee agreed to (1) coverage of new Federal employees; (2) coverage of the President, the Vice President, and the Commissioner of Social Security, Members of Congress, and legislative employees who were not covered by the Civil Service Retirement System; and (3) a provision, similar to that rejected by the Ways and Means Committee, under which a member of a religious sect opposed to Social Security coverage could elect not to be covered under the program if the employer was a member of such a sect. They did not agree to the House provisions for extending coverage to current Federal judges and executive-level political appointees.

Concern was expressed about extending Social Security coverage to new Federal employees before a supplementary Civil Service plan for such workers was adopted by the Congress. Chairman Dole read into the record a letter from Senators Stevens (R., Alaska, Majority Whip, Chairman of the Subcommittee on Civil Service, Post Office, and General Services of the Committee on Governmental Affairs) and Mathias (R., Md.) (also a member of that subcommittee) stating that, although they did not favor the proposal, "coverage of new Federal employees does not present insurmountable problems vis-á-vis the Civil Service Retirement System" and that "it should not affect any current Federal employee's or retiree's expected benefit." They indicated that they would seek to work out a satisfactory supplementary plan for new Federal employees covered under Social Security. After some debate, the Finance Committee rejected an amendment that would have delayed coverage of new Federal employees until a supplementary plan was established if that were later than January 1, 1984. The committee then approved language affirming that nothing in the legislation should be construed to adversely affect any existing rights under the Civil Service Retirement System.

Delay of COLA: The committee agreed to a provision similar to that agreed to by the House, after defeating a proposal to freeze the COLA's for 2 years. Also, with regard to the *stabilizer provision* (relating to the payment of benefit increases based on the lesser of CPI or wage increases if trust fund ratios are low) the committee defeated a proposal to shift the effective date from 1988 to 1983. It did, however, adopt a payback provision such that, if trust fund ratios subsequently rose above 32 percent, the difference between wage and price increases would be made up retrospectively on an individual basis rather than prospectively only as in the House bill.

Windfall benefits: The committee modified the House provision so that it would (1) have a lesser relative effect on persons with 25 or more years of coverage under Social Security and a greater effect on those with less Social Security coverage and (2) not apply to persons with at least 30 years of Social Security coverage.

Income tax treatment of benefits: The committee agreed to provisions similar to those in the House bill except that certain nontaxable income, such as interest from municipal bonds, would be considered in determining whether a person met the income threshold for taxing benefits. This change was thought to close a possible loophole for high-income taxpayers with such nontaxable income. The committee considered, but did not adopt, proposals that (1) would have approximated the private sector practice by providing that persons could receive benefits tax free for up to 3 years before

the benefits would become taxable, (2) would have addressed the issue of a possible "marriage penalty" by adjusting the relative tax threshold for individuals and couples (for example, from $25,000 and $32,000 to, say, $20,000 and $36,000), and (3) would have eliminated the provision for taxing Social Security benefits.

Social Security tax schedules: The Finance Committee adopted essentially the same provisions for employees and employers as those recommended by the NCSSR and adopted by the House. With respect to the self-employed, it agreed to (1) increase the Social Security tax rate to the combined employee-employer rate for OASDHI, and (2) provide Social Security tax credits, financed from general revenues, equal to the following percentages of self-employment income: 2.9 percent for 1984, 2.5 percent for 1985, 2.2 percent for 1986, 2.1 percent for 1987–89, and 2.3 percent after 1989.

Other NCSSR proposals: The committee also agreed to various other NCSSR proposals, including: (1) the four benefit equity provisions affecting primarily women, (2) the reallocation of taxes between OASI and DI, (3) lump-sum payment for gratuitous military wage credits and unnegotiated checks, (4) new trust fund investment procedures, and (5) the addition of two public members to the Boards of Trustees of the Social Security trust funds.

The committee agreed that two NCSSR proposals—the removal of the trust funds from the unified budget and the study of the feasibility of establishing Social Security as an independent agency—should be dealt with on the Senate floor, rather than in the Finance Committee, because the proposals related to matters in the jurisdiction of other committees—the Senate Budget Committee and the Senate Committee on Governmental Affairs, respectively.

Other technical proposals: The committee considered several additional proposals relating to child care dropout years for workers with children and additional dropout years for divorced spouses. Since such proposals involved some additional long-range costs, they were finally considered as part of a long-range package and, in that context, the committee agreed to provide up to 2 additional dropout years for years in which a person had no earnings and was living with a child under age 3.

In addition, the committee adopted amendments restricting payments to aliens and to prisoners. Benefits would not be payable to aliens outside the United States for more than 6 months to the extent that benefits (after taxes) exceeded the worker's (but not his employer's) Social Security contributions, plus interest. Also, all OASI benefits (like disability and student benefits under a 1980 amendment, Public Law 96-473) would not be paid to convicted felons while they are incarcerated. (This measure would not have affected payments to dependents or survivors of such felons.)

Also, although the committee did not agree to the House provision relating to interest on late deposits of Social Security contributions by the States, it did agree to a proposal that would have accelerated receipt of revenues by requiring Social Security contributions on the wages of State and local employees to be deposited on the same schedule as applies to Social Security taxes in the private sector (up to eight times a month) rather than only monthly.

Fail-safe: The committee approved a normalization provision under which (1) advance tax transfers would occur only if trust fund ratios were projected to fall below critical levels (12 percent of expenditures), and (2) interest would be paid by the trust funds on such transfers. As a final fail-safe, the committee adopted a provision that would have required the Secretary to notify Congress and to reduce the annual benefit increases if trust fund ratios were projected to reach 20 percent of expenditures and were declining. Such benefit increase reductions were to occur, to the extent possible, at middle or upper benefit levels—primary insurance amounts (PIA's) of $250 or more.

Long-range deficit: The committee agreed to long-range provisions that would have (1) gradually increased the age at which unreduced retirement benefits are first payable to 66 beginning in 2015 (with reduced benefits payable at age 62 equal to 75 percent of the unreduced benefit); (2) reduced benefit levels generally by some 5.3 percent over the period 2000–07, by modifying the percentage factors in the benefit formula; and (3) eliminated the Social Security earnings test for persons over the age of first eligibility for unreduced benefits.

The Social Security provisions as adopted by the Senate Finance Committee were estimated to increase revenues or reduce expenditures by about $165.5 billion over the period 1983–89. Over the long range the committee's bill would have provided a favorable long-range balance of 0.08 percent of taxable payroll.

Supplemental Security Income: With regard to the SSI program, the Finance Committee adopted essentially the same provisions as agreed to by the Ways and Means Subcommittee on Public Assistance and Unemployment Compensation (not the full Ways and Means Committee) except that it provided that the stabilizer would not apply to SSI and it added one new provision—to require an SSI outreach effort. Under this provision, offered by Chairman Dole, the Secretary would send a one-time notice to elderly OASDI beneficiaries who are potentially eligible for SSI payments announcing the availability of SSI and encouraging them to contact SSA. Also, in the future, on a regular basis, the Secretary was to provide that SSI eligibility information be included in the notice to OASDI beneficiaries about eligibility at age 65 for Supplementary Medical Insurance.

Medicare: On March 10, the Senate Finance Committee, after defeating an attempt to delay consideration

of prospective payment for several months, approved prospective payment provisions as part of the Social Security bill. The following are the major Medicare provisions added by the Finance Committee to the package as contained in the House bill:

(1) Instead of establishing separate DRG rates for nine census divisions as in the House bill, the Finance Committee provided for four regions.

(2) The Secretary would have been required to adjust the DRG payment rate at least every 5 years.

(3) In addition to the House provisions on outliers (unusually long-stay cases), the committee added a provision under which the Secretary would have permitted hospitals to appeal for additional payments for outlier cases in which charges were equal to or exceeded a multiple of the DRG rate or a dollar amount, whichever was greater.

(4) Payments for outliers would have been no less than 5 percent or more than 6 percent of total Medicare payments to hospitals for inpatient care.

(5) The study on inclusion of capital-related costs in the prospective payment system would be due 18 months after enactment. As of October 1, 1986, capital costs would no longer be excluded from prospective payment.

(6) The Secretary would adjust base costs for individual nonprofit hospitals that have additional costs for covering their employees under Social Security.

(7) The transitional provision would work in the following way: In the first year, 25 percent of the payment would be based on a blend of national and regional DRG rates (25 percent national, 75 percent regional); 75 percent would be based on each hospital's own experience. In year two, 50 percent of the payment would be based on a blend of national and regional DRG rates (50 percent each); 50 percent would be based on each hospital's cost experience. In year three, 75 percent of the payment would be based on a blend of DRG rates (75 percent national, 25 percent regional); 25 percent would be based on each hospital's cost experience. In year four, the entire payment would be based on the national DRG rate.

Senate floor action. The timing of the Senate floor debate was somewhat problematic because of the interest in the Senate in repealing a provision of the Tax Equity and Fiscal Responsibility Act of 1982 calling for withholding of income taxes on interest and dividends—a move strongly opposed by the administration and the Senate leadership. In mid-March an amendment to repeal this income tax withholding provision was pending on an emergency supplemental appropriations and jobs bill, another Finance Committee bill that was also considered "must" legislation before the Easter recess. Thus, although the committee completed action on its version of the Social Security bill on March 10 and was ready to take the bill up on the Senate floor on Monday, March 14, the Senate floor debate on the Social Security bill did not actually begin until March 16, when the Senate reached agreement to deal with the withholding issue after the Easter recess, passed the jobs bill, and turned to Social Security. Over the period March 16 through March 23, the Senate debated 98 Social Security-related amendments and, on March 21-22, amendments relating to income-tax withholding on interest and dividends.

A major subject of Senate floor consideration related to the coverage of new Federal employees. Senator Long (D., La.) proposed, as he had during Finance Committee consideration, that the coverage of newly hired Federal employees should not take effect before enactment of a supplemental Civil Service plan for such employees. Before this amendment was voted on, however, the Senate considered two alternative amendments.

First, by a vote of 86 to 12 the Senate defeated an amendment offered by Senator Stevens and Senator Mathias that would have eliminated the provisions for coverage of Federal employees from the bill. Then Senator Stevens offered an amendment that would have provided that new Federal employees (after January 1, 1984) would not be required to contribute to the Civil Service Retirement System (CSRS) until October 1985, or, if earlier, the effective date of a new supplemental Civil Service retirement plan for such workers. Such employees would receive credit, financed from general revenues, for work during the period when contributions were not required under the present CSRS or, if a new supplemental plan were enacted, under the new plan. During debate on this proposal, there was discussion of the need for action by the Governmental Affairs Committee to avoid the dual contributions that would otherwise be required under the bill from new Federal employees beginning January 1984. However, Senator Long's amendment that would also avert this situation was pending before the Senate, and the second Stevens amendment was defeated by a vote of 50 to 45.

The Senate then passed, by voice vote, the amendment by Senator Long that provided that coverage of new Federal employees would take effect in January 1984 or, if later, the month after the month of enactment of a supplemental Civil Service plan for such workers. The Senate also agreed to an amendment by Senator Levin (D., Mich.) pledging that the full faith and credit of the United States stood behind the language already agreed to by the Finance Committee stating that nothing in the bill would affect accrued entitle-

ments to future benefits under the CSRS for current workers or retirees or their families.

In other action affecting the coverage provisions, the Senate rejected an amendment that would have provided for mandatory coverage of employees of nonprofit organizations only on a "new hires" basis. The Senate also rejected an amendment to delete the provisions for more frequent deposit of State and local Social Security contributions and agreed to an amendment for collection of such contributions by the Treasury Department (rather than the Department of Health and Human Services, as under present law). The Senate also agreed to coverage of ministers as employees, rather than as self-employed persons, under certain circumstances, and to Social Security tax relief in the form of tax credits and delayed deposits for certain small employers. The Senate also made some modifications in the provisions relating to the treatment of deferred compensation.

With regard to the income-tax treatment of the Social Security benefits of beneficiaries with adjusted gross income (plus certain tax exempt income) of more than $25,000 ($32,000 for couples filing jointly), the Senate defeated amendments that would have (1) indexed the threshold levels, (2) adjusted the levels (to $20,000 for individuals and $36,000 for couples) to avoid a possible "marriage penalty," and (3) eliminated the provision for including tax-free income in determining whether the thresholds were met. This latter provision was viewed by some as a potential threat to the tax-free status of interest on municipal bonds and as possibly unconstitutional.

In the area of near-term financing, the Senate rejected proposals to (1) eliminate the revisions in the Social Security tax schedule through 1990, (2) further postpone the July 1983 COLA by another 6 months, to July 1984, and (3) shift the effective date of the stabilizer provision—the provision for basing benefits on the lower of CPI or wage increases if the trust funds were below 20 percent of expenditures—from 1988 to 1983.

However, the Senate agreed to a provision by Senator Long under which normalized tax transfers could occur whenever the trust fund ratio was less than 20 percent of expected outgo, rather than 12 percent as in the committee bill. This provision was needed so that the normalized tax transfer provision could take effect on a timely basis and, thereby, prevent the fail-safe provision for a downward adjustment of the COLA for higher-PIA beneficiaries from triggering in the near term. A triggering of this aspect of the fail-safe—as might have otherwise occurred under the Senate Finance Committee bill—was unintended and would have generated a reduction in long-range costs not anticipated by the committee.

The Senate also adopted a number of modifications in benefits and provisions for studies relating to benefit structure: (1) further restrictions on benefits for aliens (primarily affecting aliens not legally permitted to work in the United States and subject to deportation); (2) further restrictions on benefits for convicted felons (to include persons found not guilty by reason of insanity); (3) "transitional" benefits for persons widowed at ages 55–59; (4) an implementation study of earnings-sharing proposals; and (5) studies by the Secretary of the Treasury of alternatives to Social Security based on the purchase of special bonds and/or individual retirement accounts. The Senate also adopted an amendment (by Senator Heinz, R., Pa.) calling for a study (as proposed by the NCSSR) on establishing Social Security as an independent agency.

With regard to the long-range provisions in the Finance Committee bill, the Senate agreed to amendments to (1) coordinate the gradual increase in the delayed retirement credit with the phased elimination of the earnings test; (2) phase out the test beginning in 1988 (rather than 1990); and (3) apply the earnings test and the phaseout of the test to the blind (instead of the test of substantial gainful activity). The Senate also adopted a provision requiring the next Advisory Council on Social Security to study the effect of increasing the age of eligibility for unreduced benefits and rejected a proposal for an occupational definition of disability for workers aged 62 or over who were unable to continue to engage in their current occupation or employment as well as an amendment for phasing in a rise in the retirement age to 68 over a 36-year period beginning in 1984.

Concern was also expressed about provisions of the bill authorizing automatic appropriations to the Social Security trust funds and, thereby, bypassing the appropriations committees. Thus, the Senate agreed to an amendment by Senator Hatfield (R., Oreg.), Chairman of the Senate Appropriations Committee, that would have required that the lump-sum payment for pre-1957 military wage credits and payments for uncashed checks be subject to the normal appropriations process. There was also agreement that funds for the study of Social Security as an independent agency should be subject to the appropriations process. The Senate ruled out of order an amendment to remove the Social Security trust funds from the unified budget and the congressional budget process and tabled a motion to remove Social Security from the unified budget.

Several relatively minor Medicare amendments were agreed to. For example, hospitals of 500 or more beds in rural areas and regional or national referral centers were to be reviewed by the Secretary of HHS to see whether they should receive special treatment. There was also discussion of major amendments relating to health insurance for unemployed persons. However, no such provisions were agreed to and it was understood that the subject would be considered further in the current session of the Congress.

On the evening of March 23, the Senate passed H.R. 1900, as amended, by a vote of 88 to 9. The financial effect of the bill as passed by the Senate was dependent upon assumptions made with regard to the effective date of coverage of Federal employees under the provision delaying coverage until an alternative CSR plan was in effect. If such a plan were in effect by 1984, the Senate-passed bill would have provided an estimated $165.7 billion in additional revenues or reduced expenditures over the period 1983-89 and would have eliminated the long-range deficit of 2.09 percent and provided a favorable actuarial balance of 0.07 percent of payroll. If, however, it was assumed that coverage of Federal employees was delayed indefinitely, the near-term saving under the Senate bill would have been less and there would have been a remaining long-range deficit of 0.21 percent of payroll.

Provisions of Senate-passed bill

Provisions based on NCSSR recommendations:

(1) Mandatory coverage of new Federal employees and current Members of Congress, the President, the Vice President, and the Commissioner of Social Security, and legislative employees not under the Civil Service Retirement System, effective January 1984, or, if later, the month following the month of enactment of a supplemental Civil Service plan. The provision included a guarantee against impairing accrued rights under the Civil Service Retirement System.

(2) Mandatory coverage of employees of nonprofit organizations, effective January 1984, and a prohibition on new terminations.

(3) Prohibition on State and local coverage terminations and removal of prohibition against coverage of previously terminated entities.

(4) Delay the 1983 COLA for 6 months and shift future COLA's to a calendar year basis (including both Social Security and SSI COLA's and Medicare premium increases and the conforming change in the effective date of the 1982 Omnibus Budget Reconciliation Act provision for the rounding of certain veterans' pensions).

(5) Stabilizer provision for basing OASDI benefit increases on the lesser of CPI or wage increases, if, after 1987, trust fund assets fall below 20 percent of expected outgo (with the triggering of an individual retrospective catch-up provision if trust fund ratios then rose above 32 percent). The provision would not have applied to the SSI COLA.

(6) Windfall benefit provision for workers with pensions from noncovered employment and less than 30 years of coverage under Social Security. For workers with less than 25 years of Social Security coverage, a less weighted Social Security benefit formula, using 32 percent rather than 90 percent of average indexed monthly earnings in the first bracket of the benefit formula, would phase in over 5 years. Larger factors would apply to workers with 25 to 30 years of coverage.

(7) Gradual increase in the delayed retirement credit from the present 3 percent per year for workers reaching age 65 before 1993 to 8 percent per year for workers reaching retirement age in 1998 or later.

(8) Income taxation of up to half of Social Security benefits for higher income Social Security and Railroad Retirement Tier I beneficiaries; include tax-exempt income in determining if income threshold is met.

(9) Acceleration of scheduled Social Security tax increases for employees and employers and 1984 tax credit for employees.

(10) Revised Social Security tax schedule for the self-employed and tax credit against Social Security taxes.

(11) Reallocation of tax revenues between OASI and DI trust funds.

(12) Continuation of benefits for disabled and divorced widow(er)s who remarry.

(13) Payment of benefits to divorced spouses regardless of the entitlement or payment status of the eligible worker.

(14) Indexing of deferred widow(er)s benefits based on wage (rather than price) increases since the worker's death.

(15) Increase in the percentage of a worker's benefit payable to a disabled widow(er) aged 50-59.

(16) Fail-safe provisions: (a) normalization of tax transfers, with provision for paying interest, only when trust fund balances are less than 20 percent of outgo; (b) extension of interfund borrowing authority, with a number of safeguards protecting the loaning fund and assuring repayment; and (c) a requirement that, when trust fund balances are less than 20 percent and declining, the Secretary so notify the Congress by July 1 and—if no congressional action is taken—scale back the COLA payable on the following January to prevent the anticipated decline in the funds. (The scaling back of the COLA would apply, to the extent possible, only at basic monthly benefit levels (primary insurance amounts) of more than $250.)

(17) Authorization for appropriations to cover lump-sum transfers from the general fund to cover the costs of noncontributory military wage credits and unnegotiated Social Security checks.

(18) Social Security taxation of contributions to, and payments made under, certain deferred compensation plans and codification of *Rowan* decision.

(19) Revised trust fund investment procedures to eliminate anomalies and permit payment of current interest rates on total assets.

(20) Addition of two public members to Boards of Trustees.

(21) Authorization of Presidential study of implementation of a proposal to establish Social Security as an independent agency.

Long-term provisions:

(1) Gradual increase in the age of eligibility for unreduced benefits to 66 for workers reaching that age in 2015 or later, while retaining provisions for payment of reduced benefits (with a 25-percent reduction) at age 62. The age of eligibility for Medicare would also be increased.

(2) Require the next Advisory Council on Social Security (to be appointed in 1985) to study the effect of increasing the retirement age.

(3) Gradual reduction in initial benefit levels (by adjusting the factors in the benefit formula) by about 5.3 percent over the period 2000–07.

(4) Gradual elimination of the earnings test for persons aged 65 or older by additional increases in the exempt amounts for 1990–94, with elimination thereafter.

Other Social Security provisions:

(1) Require the deposit of contributions on wages of State and local employees on the same schedule as used for private employees.

(2) Require less frequent deposit of Social Security taxes by small employers.

(3) Provide a Social Security tax credit (not to exceed $300) for employers with 50 or fewer employees, with the cost of the credit met from general revenues.

(4) Coverage modifications similar to House-passed provisions to (a) exclude employer contributions under simplified employee pensions from covered wages, and (b) cover standby pay after age 62 as wages.

(5) Additional coverage modifications to (a) exempt certain employed members of certain religious sects from Social Security coverage, (b) cover ministers as employees (pursuant to irrevocable election by the minister and the employing church), and (c) apply common paymaster rule where health care professionals are employed by State universities as medical school faculty members and by tax exempt faculty practice plans.

(6) Except as provided under treaties or international social security agreements, benefits would be payable to aliens outside the United States for more than 6 months only to the extent that the total after-tax benefits did not exceed the worker's own contributions, plus interest. Also benefits would not be payable to noncitizens who were unable to show that they had been legally admitted to work in the United States. Finally, in the case of beneficiaries who are deported or in the process of being deported, no quarters of coverage based on illegal work could be used in determining benefit eligibility.

(7) Withholding of OASDI benefits from felons during incarceration; benefits to dependents and survivors of convicted felons would not be affected.

(8) Eliminate the concept of substantial gainful activity for the blind and instead apply the earnings test to blind persons and phase out the earnings test for the blind on the same schedule as for the aged (with elimination of the test after 1994).

(9) Provide up to 6 months of transitional benefits equal to 71.5 percent of the deceased worker's benefit to persons widowed at ages 55–59 who would not otherwise qualify for immediate benefits.

(10) Allow up to 2 additional dropout years for workers who have years of zero earnings and were living with a child under age 3.

(11) Facilitate the use of death certificates to prevent erroneous benefit payments to deceased individuals.

(12) Require the issuance of new and replacement Social Security cards that will be more counterfeit-resistant and printed on banknote paper.

(13) Require that all Social Security checks (and the envelopes in which they are delivered) carry a legend indicating that it is a felony to negotiate a check erroneously issued to a beneficiary who has died.

(14) Require the Secretary of Health and Human Services to report to the Ways and Means and Finance Committees, by January 1, 1984, on

the possible implementation of alternative proposals involving earnings sharing.

(15) Mandate two studies by the Secretary of the Treasury: one relating to the feasibility of implementing a system of "Social Security Option Accounts" and one on the feasibility of implementing a system of Individual Retirement Security Accounts. (Under either approach, workers would be permitted, in effect, to allocate a part of their Social Security taxes to IRA-type accounts and to receive reduced Social Security benefits to take account of the deposits to the IRA-type accounts.)

(16) Provide for waiving certain requirements of the veterans' laws in the case of an administrative reorganization of the VA Los Angeles Data Processing Center.

SSI provisions:

(1) (a) Effective July 1983, increase the Federal benefit standard for individuals, couples, and essential persons by $20, $30, and $10, respectively.

(b) Delay the SSI COLA from July 1983 until January 1984.

(c) Except the SSI program from the Social Security stabilizer provision for paying the lower of the increase in wages or prices under certain circumstances.

(2) For purposes of the Federal SSI passthrough provisions, States could either maintain their December 1976 or their March 1983 supplementation levels. Also, States would be required to pass through only so much of the July 1983 benefit increase as would have resulted had the COLA not been delayed to January 1984.

(3) The Secretary would send, to elderly OASDI beneficiaries who are potentially eligible for SSI benefits, a one-time notice of the availability of SSI and encourage them to contact SSA. Also, in the future, on a regular basis, the Secretary would provide that SSI eligibility information be included in the notice to OASDI beneficiaries about eligibility at age 65 for Supplementary Medical Insurance.

Medicare provisions:

Establishment of a program of Medicare payments for inpatient hospital services on the basis of prospective rates phased in over a 3-year (rather than a 4-year) transition period and including other variations from the House-passed provisions.

Unemployment Compensation provisions:

Extension of the Federal supplemental compensation program. Also, miscellaneous provisions dealing with (a) a cap on credit reduction, (b) deferral of interest, (c) average employer contribution rate, (d) date for payment of interest and penalty for failure to pay interest, (e) employees of educational institutions, and (f) extended benefits for individuals who are hospitalized or on jury duty.

House-Senate Conference Committee

The House of Representatives had appointed conferees on the afternoon of March 23 in the hope that the Senate might pass H.R. 1900 early enough that conference could be held that night. However, by evening, when the Senate passed the bill and appointed conferees, it was decided that conference would begin early on March 24 with the objective of completing work on the bill and beginning the Easter recess that day.

The conference committee, chaired by Representative Rostenkowski, convened on March 24 and moved quickly on a number of major provisions, setting aside some of the more technical or problematic areas to be dealt with last. While staffs conferred in one area, the conference formally moved on other areas so that, by mid-afternoon, most of the differences between the House and Senate bills affecting Medicare and Unemployment Compensation, as well as Social Security and SSI, had been resolved.

In general, the Senate agreed to most of the technical OASDI provisions that had been included in the House-passed bill, including the provisions eliminating gender-based distinctions. It also receded from the benefit liberalizations that were included in the Senate bill but not in the House bill. On other benefit and administrative amendments, compromises were reached between the House and Senate provisions and in a number of areas Senate-passed provisions were dropped because of the lack of time for consideration by the House conferees, or for other reasons such as, in the case of the Treasury Department studies of alternative Social Security plans, there was ample authority to conduct the studies without a special legislative mandate.

Some concern was expressed among House conferees about the Senate provisions requiring that funds relating to unnegotiated checks and noncontributory military wage credits should be subject to the appropriations process. Senator Dole described an understanding he had reached with Senator Hatfield on the Senate floor under which the necessary funds were to be included shortly in a supplemental appropriation for 1983. The Senate receded with respect to an automatic appropriation for military wage credits and the House receded with respect to unnegotiated checks and also agreed that funding for the study of Social Security as an independent agency should be subject to the legislative appropriation process. The Senate also receded with

respect to the separage budget display of Social Security trust fund operations and the removal of the OASDI and HI funds from the unified budget except that the latter part of the provision would take effect beginning in fiscal year 1992, rather than 1989, as was included in the House bill.

With regard to coverage of Federal employees, the Senate provision that would have delayed coverage pending adoption of an alternative plan was rejected by the conference. Thus, the conferees agreed to major coverage provisions following the House bill.

The conferees agreed to COLA changes including technical adjustments as in the Senate bill, to a windfall benefit provision along the lines of the Senate bill but using a more generous basic formula and exempting a number of groups, and to a *stabilizer provision* using the House prospective-only approach to the catch-up but providing for a 1984 effective date and a lower (15 percent) trigger ratio for 1984–88.

The conferees accepted, essentially, the House-passed retirement age and other long-range provisions. They agreed to the Senate provision for including tax-exempt income in determining the thresholds for taxing Social Security benefits. They also adopted the Senate provision on the timing of deposits of Social Security contributions for State and local employment but not to the Senate provisions affecting employers with 50 or fewer employees. Both Houses dropped their provisions for revised trust fund investment procedures when it was learned that under either approach there could be some short-term loss in interest revenues due to recent declines in interest rates.

The major remaining area of difference in the OASDI area related to the fail-safe provision. Following caucuses, the House and Senate conferees agreed to the House provisions on the normalization of tax transfers (without any triggering trust fund ratio) and agreed to the Senate provisions on interfund borrowing (which included various safeguards for the lending funds and more specific repayment provisions). Although the conferees did not agree to the Senate provision authorizing the Secretary of Health and Human Services to limit future COLA's, if necessary, they did modify the *stabilizer provision* as described above so that it could become effective on the basis of a 15-percent trigger as early as December 1984. Also, the conferees provided that the Trustees should include, in any report to Congress that trust fund balances would be unduly low, specific information on the extent of benefit reductions and/or revenue increases needed to correct such low trust fund balances.

The conference committee report (which was not signed by three of the conferees—Senator Long and Representatives Archer and Frenzel) was then quickly drafted and sent back to the House and the Senate for final action.

Final Passage

The House was called into session at about 10:25 p.m. to consider the conference committee report. Following an explanation of the conference agreement by Representative Rostentowski and speeches by Representatives Conable, Pickle, and Pepper, the House rejected without a recorded vote a motion to recommit the bill and passed the conference report by a vote of 243 to 102.

The Senate was then called into session to consider the conference committee report and several members requested a recorded vote. There was considerable dissatisfaction with the conference agreement. Senator Long urged that the report not be agreed to because of the absence of a stronger fail-safe provision and because of the proposed inclusion of tax-exempt income in the provision for taxing benefits and the coverage of new Federal employees. Senator Armstrong (R., Colo.), too, expressed strong reservations about the bill, including the fail-safe provision, the tax increases, and the use of general revenue funds, although he supported final passage. Others spoke in support of the bill. Senators Moynihan (D., N.Y.) and Heinz spoke in strong support of final passage, as did a number of the other Senators.

Finally, in the early morning hours of March 25, the Senate passed H.R. 1900, as agreed to in the conference committee report, by a vote of 58–14 and the Congress adjourned for the Easter recess.[20]

II. Summary of Provisions

On April 20, President Reagan signed the legislation as Public Law 98–21. As enacted, the Social Security Amendments of 1983 contain the following provisions.

Universal Coverage Provisions

Coverage of newly hired Federal employees. The following groups are to be covered under Social Security: (1) all Federal employees (except reemployed Civil Service annuitants) hired on or after January 1, 1984, including executive, legislative, and judicial branch employees and including those with previous periods of Federal service (provided the break in service has exceeded 365 days); (2) current employees of the legislative branch who are not participating in the Civil Service Retirement System (CSRS) on December 31, 1983; and (3) all Members of Congress, the President, the Vice President, Federal judges, and most executive-level political

[20] It quickly became apparent that the final bill contained a number of typographical and technical errors. Therefore, immediately following the Easter recess and before the bill was sent to the President for signature, the Congress passed a concurrent resolution (H.Con.Res. 102) directing the enrolling clerk of the House of Representatives to make the necessary corrections. H. Con. Res. 102 was passed by both Houses of Congress on April 7 and the corrected bill was cleared to go to the President for signature.

appointees of the Federal Government, effective January 1, 1984. Judicial retirement pay of retired Federal judges for periods when they resume judicial duties is covered. This provision includes a statement of principle on protecting accrued entitlement of current Federal employees under the Civil Service Retirement System.

This provision eliminates gaps in protection for Federal employees, particularly those who shift between Federal employment and jobs already covered under Social Security. In addition, over the long run, windfall Social Security benefits—benefits that represent a comparatively high return on Social Security taxes for workers who spend less than a working lifetime in covered employment—will be eliminated for these employees.

Coverage of employees of nonprofit organizations. Current and future employees of private tax-exempt nonprofit organizations are covered, effective January 1, 1984, on a mandatory basis. Under prior law, work performed for such organizations was excluded from coverage unless the organization filed a certificate with the Internal Revenue Service waiving its exemption from Social Security taxes. Also, persons will be deemed to be fully insured if, on January 1, 1984, they are at least aged 55 and employed by a nonprofit organization whose employees are covered solely as a result of Public Law 98-21, and if they acquire, after December 31, 1983, the number of quarters of coverage shown in the following tabulation:

Age on January 1, 1984	Quarters of coverage required
60 or over	6
59	8
58	12
57	16
55 or 56	20

In addition, termination of Social Security coverage of employees of nonprofit organizations is prohibited on or after March 31, 1983. Under prior law, nonprofit organizations could terminate coverage upon giving 2 years advance notice, providing coverage had been in effect for 8 years or more when the notice was given.

These amendments will avoid gaps in protection for employees of nonprofit organizations (and their families) who move between covered and noncovered work. Further, over time, windfall benefits will be eliminated for these employees.

Prohibit termination of coverage of State and local government employees. States are prohibited from terminating coverage of State and local government employees if the termination has not gone into effect by April 20, 1983 (the date of enactment). Under prior law, a State could terminate coverage for groups of State and local employees by giving 2 years advance written notice, providing the coverage had been in effect for at least 5 years when the notice was given. Also, State and local groups whose coverage has been terminated may elect to be covered again. Prior law prohibited a terminated group from being covered again. This provision avoids gaps in protection for State and local employees (and their families) whose coverage would otherwise have been terminated. Further, over time, windfall benefits will be eliminated for these employees.

Benefit Computation

Shift cost-of-living adjustments (COLA's) to calendar year basis. The July 1983 COLA is delayed until January 1984. Future automatic COLA's are effective on a calendar year basis, with the increase payable in January rather than in July of each year. Beginning with the COLA payable in January 1985, the period for measuring the increase in the Consumer Price Index (CPI) will be shifted from a first-quarter to first-quarter measure to a third-quarter to third-quarter measure. The Supplemental Security Income (SSI) payment increase and the Medicare premium increase will also be delayed to January 1984 and placed on a calendar year basis. (The SSI payment standard will be increased by $20 for an individual and by $30 for a couple in July 1983. See pages 34 and 40 for additional information on SSI and Medicare changes.)

Cost-of-living increases to be based on lower of wage or price increase if OASDI trust funds are low—"Stabilizer." Beginning with the December 1984 OASDI benefit increase payable in January 1985, future automatic increases will be limited to the lesser of the increase in wages or prices if the ratio of the combined OASDI trust fund assets to estimated outgo falls below a given percentage. If this occurs, the automatic increase will be the smaller of (1) the increase in prices as measured by the Consumer Price Index (the regular COLA) or (2) the increase in wages as measured for purposes of the contribution and benefit base and other automatic wage adjustments in the program. The "triggering" trust fund percentage is 15 percent through December 1988 and 20 percent thereafter.

The law also provides for making up for any benefit increases that are based on wage increases, rather than on the increase in the cost of living. When the trust fund ratio reaches 32 percent, additional increases will be given, to the extent that funds are available above the 32-percent ratio, so that benefits are increased to the level they would have reached if all increases had been based on the increase in prices. Under the 1983 Board of Trustees Alternative II-B assumptions, the provision is not expected to actually take effect.

Eliminate windfall benefits for persons receiving pensions from noncovered employment. For workers who are first eligible after 1985 for both a pension based on noncovered employment and Social Security retirement

or disability benefits, a different benefit computational method will apply. Specifically, the 90-percent factor generally applied to average earnings in the first band of the benefit formula is replaced by a factor of 40 percent, after a 5-year phase-in. There is a guarantee (designed to help protect workers with relatively low pensions based on noncovered employment) that the reduction in the Social Security benefit will not exceed one-half of the amount of the pension. For purposes of this guarantee computation, only that portion of the pension attributable to post-1956 noncovered earnings will be considered.

The provision will not apply to certain groups, including most current Federal or nonprofit employees who become newly covered under Social Security effective January 1984, railroad employees, and workers who have 30 or more years of Social Security coverage. For workers who have 26-29 years of coverage, a factor larger than 40 percent will be used (on a sliding scale). This provision reduces the extent to which the heavy weighting in the benefit formula that is intended for workers with low wages would otherwise go to workers who spent many years in noncovered employment and worked only a few years in covered employment.

Lower the withholding rate under the earnings test. Beginning in 1990, the earnings test benefit withholding rate will decrease from $1 for each $2 of earnings over the annual exempt amount to $1 for each $3 of excess earnings for individuals who attain full-benefit retirement age (age 65 in 1990). Beginning in the year 2003, the age at which this withholding rate applies will increase as the retirement age increases. The lower withholding rate will apply for the whole year in which an individual attains retirement age (as does the higher annual exempt amount under present law).

Increase the delayed retirement credit (DRC). The DRC payable to workers who delay retirement past the full-benefit retirement age (currently age 65) and up to age 70 will be gradually increased. DRC's will increase by 1/2 of 1 percent every other year from 3 percent per year for workers aged 62 before 1987 until reaching 8 percent per year for workers aged 62 after 2004. Under prior law, DRC's were equal to 3 percent per year for workers who reached age 62 in 1979 or later.

Under a conforming provision, the age beyond which DRC's can no longer be earned is reduced from 72 to 70. This change in the DRC provision is in line with the 1977 and 1981 legislation, which lowered from 72 to 70 the age at which the earnings test no longer applies, effective for calendar year 1983.

Amend the government pension offset to exempt a portion of the government annuity from offset against the Social Security spouse's benefit. For spouses and surviving spouses who become eligible after June 1983 for a public pension based on their own noncovered employment, two-thirds of the public pension will be offset against Social Security benefits, rather than 100 percent of the pension as under prior law. This change responds to the criticism that the offset under prior law applied to the entire government pension—both the part analogous to a Social Security benefit and the part analogous to a private pension.

Income Tax Treatment of Benefits

Taxation of Social Security and Railroad Retirement Tier I benefits. Beginning in 1984, up to one-half of Social Security (and Railroad Retirement Tier I) benefits received by taxpayers whose incomes exceed certain base amounts will be included in taxable income. The base amounts are $25,000 for a single taxpayer, $32,000 for married taxpayers filing jointly, and zero for married taxpayers filing separately. Income for purposes of figuring these base amounts includes adjusted gross income under prior law (plus nontaxable interest income), and one-half of Social Security and Railroad Retirement Tier I benefits. The amount of benefits included in taxable income will be the lesser of one-half of benefits or one-half of the excess of the taxpayer's combined income (adjusted gross income + one-half of benefits) over the base amount. The provision for including nontaxable interest income is intended to provide similar tax treatment of benefits received by individuals whose total income consists of different mixes of taxable and nontaxable income and to limit opportunities for manipulation of tax liability on benefits.

For tax purposes, the definition of Social Security benefits includes Workers' Compensation benefits to the extent that they cause a reduction in Social Security and Railroad Retirement Tier I disability benefits. This provision is intended to assure that these social insurance benefits, which are paid in lieu of Social Security benefits, are treated similarly for purposes of taxation. Also, benefits paid to an individual in any taxable year include amounts constructively received but withheld; subsequent adjustments will be made to take account of such items as, say, overpayments repaid during the year. Taxpayers who receive a lump-sum payment of retroactive benefits may treat the benefits as wholly payable for the year in which they receive them or may elect to attribute the benefits to the tax years in which they would have fallen had they been paid timely. No benefits for months before December 1983 will be taxable, regardless of when they are paid.

The Department of Health and Human Services and the Railroad Retirement Board will be required to file annual returns with the Secretary of the Treasury setting forth the amount of benefits paid to each individual in each calendar year and to furnish similar information to each beneficiary.

The provision applies to nonresident aliens as well as U.S. citizens. Under the Internal Revenue Code, nonresident aliens who have income from sources other

than a U.S. trade or business are taxed at a flat rate of 30 percent, unless a tax treaty provides otherwise, and the taxes must be withheld at the source of payment. Thus, 30 percent of one-half of the Social Security benefit (15 percent of the total benefit) will be withheld from nonresident alien beneficiaries.

Amounts equivalent to estimated quarterly incurred liability for taxes on benefits will be automatically deposited in the Social Security trust funds and the Railroad Retirement Account, as appropriate, at the beginning of each calendar quarter, subject to final adjustments based on estimates by the Secretary of the Treasury. The Secretary of the Treasury will submit an annual report on the transfers under this provision.

Income tax credit for elderly and disability income exclusion.

Credit for the elderly: The prior law tax credit equal to 15 percent of a base amount for individuals aged 65 or over is retained. However, the base amounts have been doubled, and the provision has been extended to include disabled persons under age 65 if they retired with a permanent and total disability and have income from a public or private employer on account of that disability. For individuals under age 65, the initial amount is limited to the amount of their disability income.

Disability income exclusion: The disability income exclusion is repealed. Affected individuals are made eligible for the credit for the elderly (and disabled persons) to the extent of disability income (see above). Under prior law, permanently and totally disabled individuals who retired on disability and were under age 65 could exclude amounts received under an employer's disability income plan from gross income to the extent that they were attributable to employer contributions.

This provision is a general tax provision, not a Social Security provision, and applies to taxable years beginning after December 31, 1983. It has no effect on the Social Security program.

Surviving, Divorced, and Disabled Spouse Benefits

Benefits for surviving divorced spouses and disabled widows and widowers who remarry. After 1983, Social Security benefits will not be terminated for surviving divorced spouses, disabled surviving divorced spouses, and disabled widows and widowers who remarry after entitlement to benefits. Under prior law, when a disabled or divorced disabled widow(er) married before age 60, his or her benefits on the record of a former spouse terminated, unless the new marriage was to a person receiving certain types of auxiliary benefits. This provision removes a possible deterrent to marriage previously in the law and provides treatment for disabled or divorced disabled widow(er)s that is more nearly comparable to that provided for aged widow(er)s.

Independent entitlement of divorced spouses. Effective January 1985, a divorced spouse aged 62 or over who has been divorced for at least 2 years may receive benefits based on the earnings of a former spouse who is eligible for retirement benefits, regardless of whether the former spouse has applied for benefits or has benefits withheld under the earnings test. Under prior law, a divorced spouse could not qualify for dependent's benefits based on the earnings of a former spouse until the former spouse had filed an application for benefits. If the former spouse did become entitled to benefits but continued to work, a divorced spouse could have some or all benefits withheld due to the former spouse's earnings. The requirement that the divorce must have been in effect for 2 years is intended to discourage divorces solely for the purpose of becoming entitled to benefits or avoiding the earnings test.

Index deceased worker's earnings to widow(er)'s eligibility. In computing aged widow(er)'s benefits for the spouse of a worker who died before age 62, the deceased worker's earnings will be indexed to wages up to the earliest of (1) 2 years before the worker would have reached age 62, (2) 2 years before the survivor becomes eligible for aged widow(er)'s benefits, or (3) 2 years before the survivor becomes eligible for disabled widow(er)'s benefits. The new computation will apply only if it results in a higher benefit than under the prior-law computation. Under prior law, if a worker died before reaching age 62, the aged widow(er)'s benefit payable at or after age 60 reflected adjustments for wage levels up to the worker's death and price increases thereafter. The provision is effective for widow(er)s newly eligible for benefits after December 1984.

Increase benefits for disabled widow(er)s. Benefits for disabled widow(er)s aged 50–59 (including persons already on the rolls who have received benefits as disabled widow(er)s) will be 71.5 percent of the PIA—the same reduction currently applicable to widow(er)s first entitled at age 60. Under prior law, benefits for disabled widow(er)s were further reduced for entitlement before age 60 with a maximum reduction of 50 percent for disabled widow(er)s becoming entitled at age 50.

Revenue Measures

Changes in Social Security tax rates and allocation of tax income. Table A shows the Social Security tax rates for employees and employers (each) and for the self-employed under Public Law 98-21 and under prior law. For employees and employers the previously scheduled tax increase for 1985 has been shifted to 1984 and a part of the increase scheduled for 1990 is to take effect in 1988, as recommended by the NCSSR. The tax rates for the self-employed have been set equal to the combined

Table A.—Social Security tax rates as a percent of earnings for employers and employees (each) and for the self-employed under Public Law 98-21 and under prior law

Year	Employer and employee rates					Self-employed rates				
	OASI	DI	OASDI	HI	OASDHI	OASI	DI	OASDI	HI	OASDHI
Public Law 98-21										
1983	4.775	0.625	5.4	1.3	6.7	7.1125	0.9375	8.05	1.3	9.35
1984	5.2	.5	5.7	1.3	7.0	10.4	1.0	11.4	2.6	14.0
1985	5.2	.5	5.7	1.35	7.05	10.4	1.0	11.4	2.7	14.1
1986-87	5.2	.5	5.7	1.45	7.15	10.4	1.0	11.4	2.9	14.3
1988-89	5.53	.53	6.06	1.45	7.51	11.06	1.06	12.12	2.9	15.02
1990-99	5.60	.6	6.2	1.45	7.65	11.20	1.2	12.4	2.9	15.3
2000 and later	5.49	.71	6.2	1.45	7.65	10.98	1.42	12.4	2.9	15.3
Prior law:										
1983	4.575	.825	5.4	1.3	6.7	6.8125	1.2375	8.05	1.3	9.35
1984	4.575	.825	5.4	1.3	6.7	6.8125	1.2375	8.05	1.3	9.35
1985	4.75	.95	5.7	1.35	7.05	7.1250	1.425	8.55	1.35	9.9
1986-89	4.75	.95	5.7	1.45	7.15	7.1250	1.425	8.55	1.45	10.0
1990 and later	5.1	1.1	6.2	1.45	7.65	7.6500	1.65	9.30	1.45	10.75

employee-employer rates (rather than, ultimately, 75 percent of that rate for OASDI and 50 percent for HI, as under prior law). The table also shows the shift in the portion of the OASDI tax that is allocated to the Disability Insurance part of the program. The effect of this reallocation is to put the two parts of the program in roughly comparable financial condition, with the DI program being in slightly more favorable circumstances than OASI.

Social Security tax credits and deductions. For 1984 only, Public Law 98-21 provides a credit for employees against their Social Security tax liability of 0.3 percent of their wages. Thus, the effective OASDHI tax rate on employees will be 6.7 percent for 1984—the same as applied for 1983—although the regular automatic appropriations to the trust funds will be at the full 7.0-percent rate. (Conforming changes are made with respect to the Tier I Railroad Retirement taxes.)

For 1984-89, credits (similarly financed from general revenues) are provided to the self-employed against their Social Security tax liability equal to the percentages of self-employment income shown below:

1984	2.7
1985	2.3
1986-89	2.0

After 1989, the credit will be replaced with special provisions designed to treat the self-employed in much the same manner as employees and employers are treated for Social Security and income-tax purposes. First, a person's net earnings from self-employment will, in effect, be adjusted downward so that only half of the total combined tax would be considered part of the person's net earnings. This is comparable to the way employees are treated in that the employer tax with respect to their wages is not counted as part of their wages for Social Security tax and benefit purposes. Second, self-employed individuals will get an income tax deduction equal to one-half of the self-employment tax. This deduction will parallel for the self-employed the present provisions under which employers are allowed to deduct as a business expense the Social Security taxes they pay on their employees' wages. Regular automatic appropriations to the trust funds will continue to be based on the full self-employment tax rates without regard to tax credits or income-tax deductions. (Tax revenues and earnings credited for benefit purposes will generally be slightly lowered due to the adjustment in net earnings.)

Mechanisms to Assure Continued Benefit Payments—"Fail-safe"

Normalization of Social Security tax income. The new law establishes accounting procedures for crediting the OASDI trust funds and the HI trust fund at the beginning of each month with estimated revenues for the entire month. The Treasury will be required to estimate the amount of tax revenue to be collected each month and transfer such sums to the trust funds at the beginning of the month. The trust funds will pay interest, at rates equivalent to those earned on trust fund investments, on amounts so credited to the extent that they are credited before the Treasury's actual receipt of taxes. Under usual circumstances, these interest payments will have no net effect since they will be offset by additional interest earnings on the same monies. That is, the interest earned on the advances will offset the interest payments to the Treasury. The provision is a change primarily in accounting procedures; under prior law, Social Security taxes were transferred to the trust funds on an estimated as-received basis throughout the month.

Interfund borrowing. Authority for interfund borrowing among the OASI, DI, and HI trust funds is reinstated and extended for calendar years 1983-87 (such borrowing had been authorized for 1982), with provision for repayment of the principal, with interest, of all

such loans (including amounts borrowed in 1982) at the earliest feasible time, but not later than the end of calendar year 1989. Borrowing is permitted only to the extent that the balance in the lending fund is sufficient to meet its own obligations.

More specifically, any such borrowing between OASDI and HI is subject to the following additional requirements: (1) payment of interest to the HI trust fund is to begin immediately, (2) the borrowing fund is to make repayments whenever the ratio of its assets at the end of the year to projected outgo during the following year exceeds 15 percent, (3) the lending fund's assets may not be reduced below 10 percent of outgo by borrowing, and (4) a 24-month repayment schedule for any outstanding loans is provided for 1988-89. Any loans between OASI and DI must be fully repaid by the end of 1989.

Recommendations by Trustees to remedy inadequate trust fund balances. If the Board of Trustees determines at any time that the OASI, DI, HI, or SMI trust fund ratio may become less than 20 percent for any calendar year, the Board must promptly submit to each House of the Congress a report setting forth the Board's recommendations for statutory adjustments affecting the receipts of, and disbursements from, the trust fund(s) necessary to achieve a 20-percent ratio, with due regard to the economic conditions that created the inadequacy. The report is to include specific information as to the extent to which benefits would have to be reduced, payroll taxes increased, or some combination thereof enacted to meet the 20-percent-ratio objective.

Other Financing Amendments

Financing of noncontributory military wage credits. The new law provides for lump-sum payments to the OASDHI trust funds from the general fund for (1) the value of the additional Social Security benefits and administrative expenses less past reimbursements arising from pre-1957 gratuitous military service wage credits and (2) the amount equivalent to the combined employer-employee OASDHI taxes, plus interest, on the post-1956 noncontributory military wage credits for the period from 1957-83 (less amounts already paid). The amount of the lump sums is to be determined within 30 days after enactment and automatically transferred to the trust funds. The trust funds will be reimbursed on an annual basis on July 1 for the OASDHI employer-employee taxes on the post-1956 wage credits for military service after 1983. Under prior law, the noncontributory wage credits were financed by annual payments from the general fund to the trust funds over an extended period of time.

Uncashed OASDI checks. Public Law 98-21 authorizes lump-sum appropriations to the trust funds for the amount the Secretary of the Treasury and the Secretary of Health and Human Services jointly determine to be those checks (and the interest thereon) that have been uncashed for a period of 6 months or more on the date of enactment. Previously, money was transferred to the general fund from the trust funds each month to cover benefit checks for the month. The amounts transferred for those checks that were not cashed were never returned to the Social Security trust funds because there was no cutoff point after which the Treasury Department stopped payment on unnegotiated checks. The new law also requires the Secretary of the Treasury to implement procedures (by April 20, 1985) to permit identification in the future of OASDI benefit checks that have not been presented for payment within 6 months and authorizes monthly crediting (subject to annual appropriations) to the trust funds of amounts equal to benefit checks (including interest) remaining uncashed after 6 months.

Accelerate State and local deposits of Social Security taxes. Beginning after 1983, States are required to deposit withheld Social Security contributions for State and local employees twice a month. Previously, these deposits were made on a monthly basis. This change provides for treating the States on a basis more comparable to that for large private employers who must deposit as often as eight times per month.

Float allowance study. The Secretaries of the Treasury and Health and Human Services are to conduct a study consisting of two separate investigations. The first concerns the appropriateness of the current float period allowed between the issuance of benefit checks and the subsequent transfers from the Social Security trust funds to the general fund of the Treasury; the second will deal with the feasibility and desirability of providing for the transfer on a daily basis to the general fund from the appropriate trust fund of amounts equal to the amounts of benefit checks that are paid by the Federal Reserve banks on each day. The Secretary of the Treasury is required to promulgate regulations to implement the changes found appropriate by these investigations.

In early 1983, Treasury Department procedures governing the transfer of trust fund monies to the general fund generally recognized a 2-day delay between the time checks are issued and the time they are presented to the Treasury for payment. A 1982 study by the Inspector General of the Department of Health and Human Services found that in December 1980 it took an average of 5.2 days for regular benefit checks to clear through the banking system. The study estimated that, if the trust funds were drawn down on a checks-paid basis, the Social Security trust funds could earn as much as $91.5 million in additional interest each year.

Public members on the Boards of Trustees. The Boards of Trustees of the OASDI, HI, and SMI trust funds are expanded to include, in addition to the Secretaries of the Treasury, Health and Human Services, and

Labor, two members of the general public. The public members will be nominated by the President and confirmed by the Senate and cannot both be from the same political party.

Removal of trust fund operations from the unified budget. The operations of the OASI, DI, HI, and SMI trust funds are to be shown as a separate function within the Federal budget for fiscal years 1985 through 1992. Beginning with fiscal year 1993, OASI, DI, and HI trust fund operations are to be removed from the unified budget. Removal of the operations of the trust funds is intended to help insulate the program from pressures caused by unrelated budgetary considerations. The new law makes no explicit reference to the treatment of the trust fund operations under the congressional budget process, under which reductions in program expenditures may be targeted to achieve the overall Federal budget goals.

Annual Trustees' Reports. The annual OASDI and HI Trustees' Reports will each include an actuarial opinion by the responsible chief actuary certifying that the techniques and methodologies used are generally accepted within the actuarial profession and that the assumptions and cost estimates used are reasonable. In addition, the law extends the due date for the 1983 Trustees' Reports from April 1 to June 4, 1983.

Long-Term Provisions

Retirement age/reduction for early retirement. Retirement age—the age at which unreduced retirement benefits are first available—will increase by 2 months a year for workers and spouses reaching age 62 in 2000-05, remain fixed at age 66 for those reaching age 62 in 2005-16, increase by 2 months a year for those reaching age 62 in 2017-22, and will be fixed at age 67 for those reaching age 62 after 2021. The age of eligibility for Medicare is not affected by these changes. The effects of this provision are shown in table B.

Reduced benefits will continue to be available at age 62 (age 60 for widows) but the reduction factors are revised. There is a reduction up to a maximum of 30 percent for workers (35 percent for spouses) entitled at age 62 after the retirement age is increased to age 67, rather than only up to 20 percent (25 percent for spouses) for entitlement at age 62 under prior law. There is no increase in the maximum reduction (28.5 percent) in the case of widow(er)s at age 60.

Report to Congress on effects of increased retirement age. The Secretary is required to conduct a comprehensive study and analysis of the implications of the change in retirement age for those individuals affected by the provision for increasing full retirement age who, because they are engaging in physically demanding employment or because they are unable to extend their working careers for health reasons, may not find that their work lifetimes are increased as a result of general improvements in longevity. The Secretary's report and recommendations are to be submitted to Congress by January 1, 1986.

Table B.—Effects of retirement-age provision in Public Law 98-21

Year of birth	Retirement age (years/months)		Age 62 benefits as percent of PIA [1]	
	Worker/Spouse	Widow(er)	Worker	Spouse
1937 (same as prior law)	65/0	65/0	80.0	37.5
1938	65/2	65/0	79.2	37.1
1939	65/4	65/0	78.3	36.7
1940	65/6	65/2	77.5	36.2
1941	65/8	65/4	76.7	35.8
1942	65/10	65/6	75.8	35.4
1943	66/0	65/8	75.0	35.0
1944	66/0	65/10	75.0	35.0
1945-54	66/0	66/0	75.0	35.0
1955	66/2	66/0	74.2	34.6
1956	66/4	66/0	73.3	34.2
1957	66/6	66/2	72.5	33.8
1958	66/8	66/4	71.7	33.3
1959	66/10	66/6	70.8	32.9
1960	67/0	66/8	70.0	32.5
1961	67/0	66/10	70.0	32.5
1962 and after	67/0	67/0	70.0	32.5

[1] Reduced retirement benefits will continue to be available to workers (and spouses) beginning at age 62 but at a greater reduction. For workers and spouses, the prior-law reduction factors (5/9ths of 1 percent per month for workers and 25/36ths of 1 percent per month for spouses) are retained for the first 36 months of benefits before age 65 and a new factor (5/12ths of 1 percent) is applied for each additional month. For older widow(er)s, reduced benefits continue to be available at age 60 with the monthly reduction adjusted for each age cohort so as to maintain a 28.5 percent reduction at age 60—the same maximum reduction as occurred under prior law.

Elimination of Gender-Based Distinctions

Divorced husbands. Social Security benefits are provided for aged divorced husbands and aged or disabled surviving divorced husbands based on their former wives' earnings records. The statute, as previously written, provided for the payment of benefits to aged divorced wives and aged or disabled surviving divorced wives, but benefits were not provided for similarly situated men. However, as a result of court decisions, Social Security benefits were being paid to similarly situated husbands. This provision conforms the statute to reflect benefits that are actually being paid.

Remarriage of surviving spouse before age of eligibility. Social Security benefits are provided for a widower who has remarried before attaining age 60 but is unmarried at the time he applies for benefits. The statute, as previously written, provided for the payment of benefits to a widow on a deceased husband's earnings if she was unmarried when she applied for benefits even if she remarried before reaching age 60. The statute did

not provide benefits for similarly situated men although benefits were actually being paid to such widowers as a result of court decisions that declared this gender-based distinction in the law to be unconstitutional. This provision conforms the statute to reflect benefits that are actually being paid.

Illegitimate children. Social Security benefits are provided for illegitimate children based on their mothers' earnings. Prior law provided for a determination of eligibility for illegitimate children based on their fathers' earnings without regard to appropriate intestate law, if, among other things, the father had been decreed by a court or was shown by evidence satisfactory to the Secretary to be the father of the child. The statute did not provide for such determinations of eligibility for illegitimate children based on their mothers' earnings. This provision provides for such determinations based on mothers' earnings beginning with benefits payable for months after April 1983.

Transitional insured status. Under the new law, husbands and widowers are eligible under transitionally insured provisions that previously applied only to wives and widows, effective for monthly benefits payable for months after April 1983. Under prior law, certain workers who attained age 72 before 1969 were eligible for a flat-rate Social Security benefit (currently $125.60) on the basis of fewer quarters of coverage than would ordinarily be required. Wives and widows of eligible male workers who reached age 72 before 1969 also were eligible for benefits under prior law, but husbands and widowers of eligible female workers were not.

Equalize special age-72 benefits. Public Law 98-21 provides that where both a husband and wife qualify for Prouty benefits—special payments under section 228 of the Social Security Act for uninsured persons who reached age 72 before 1972—a full payment will be made to each spouse. Under prior law, even though each spouse had to meet the same eligibility requirements he or she would have had to meet if not married, once the eligibility of both was determined, the husband received an amount equal to that paid a single individual and the wife received one-half of that amount. Thus, the total payment for the couple, which in most cases comes from general revenues, was allocated so that the husband was paid two-thirds of the total and the wife was paid one-third. The provision is effective for monthly benefits payable for months after April 1983.

Fathers' insurance benefits. Social Security benefits are provided for fathers who care for children of their retired, disabled, or deceased divorced wives. The statute, as previously written, provided for benefits for a young wife, widowed mother, or surviving divorced mother who had in her care an entitled child who was under age 16 or disabled. The statute did not provide benefits for similarly situated men although benefits were actually being paid to such fathers as a result of court decisions that declared this gender-based distinction in the law to be unconstitutional. This provision conforms the statute to reflect benefits that are actually being paid.

Effect of marriage on childhood disability beneficiary and on other dependent or survivor benefits. The new law provides for the continuation of the benefits of an individual, regardless of sex, who is receiving either dependent or survivor benefits, when his or her spouse is no longer eligible for benefits as a childhood disability beneficiary or disabled-worker beneficiary.

Under prior law, the special provisions that permitted the continuation of benefits when the dependent or survivor beneficiary married a disabled beneficiary also provided that, if the disability benefits of one spouse were terminated, the continued eligibility of the other spouse depended on the spouse's sex. A woman's childhood disability benefits or benefits as a dependent or survivor ended when her husband's disability benefits ended. This was not the case for a similarly situated man whose wife's disability benefits ended. The provision is effective for benefits payable for months after April 1983.

Credit for certain military service. Under certain circumstances, widowers, as well as widows, may now waive the right to a Civil Service survivor annuity and receive credit (not otherwise possible) for military service before 1957 for purposes of determining eligibility for, and the amount of, Social Security survivor benefits. Under prior law, only widows were allowed to exercise this option. This provision is effective with respect to benefits payable for months after April 1983.

Coverage Provisions

Coverage of employees of foreign affiliates of American employers. Effective on enactment, an American employer (a corporation, sole proprietorship, or partnership) may enter into an agreement with the Secretary of the Treasury to provide coverage for U.S. citizens and U.S. residents working outside the United States for a foreign affiliate when the American employer has not less than a 10-percent direct or indirect interest in the foreign affiliate employer. Under prior law, such coverage was available only to U.S. citizens and only if both the American employer and the foreign affiliate were corporations. This change permits continuation of Social Security protection for some additional U.S. citizens and residents while they work outside the United States for a period of time.

Extension of coverage by international social security agreement. The new law provides for the imposition of Social Security taxes if an international social security

agreement provides for coverage under the U.S. Social Security system. The provision corrects a drafting error in section 233 of the Social Security Act that prevented U.S. Social Security taxes from being imposed on earnings intended to be covered under the U.S. system pursuant to an international social security agreement. The provision is effective for taxable years beginning after enactment (April 20, 1983).

Treatment of certain services performed outside the United States. Effective with respect to taxable years beginning after December 31, 1981, foreign earned income that was previously subject to the Social Security self-employment tax is creditable for Social Security coverage purposes. This assures that such earnings are covered under Social Security since they are subject to Social Security taxes. It also provides, effective for taxable years beginning after 1983, that the self-employment income of U.S. citizens who are residents of foreign countries will be computed for Social Security purposes without regard to the foreign earned income exclusion. This provision subjects the self-employment income of U.S. citizens to Social Security taxes regardless of their residence.

Coverage of amounts received under certain deferred compensation and salary reduction arrangements. The new law provides that employer contributions shall be taxed and credited for Social Security purposes if they are (1) made under a deferred compensation or salary reduction arrangement as part of a qualified plan under section 401(k) of the Internal Revenue Code, (2) made for an annuity contract under section 403(b) of the Code, or (3) employee contributions that are treated as employer contributions under section 414(h)(2) of the Code. With respect to payments not paid to or under such plans (nonqualified deferred compensation), the legislation provides that such compensation will be taxed and credited when the related services are performed or when there is no substantial risk of forfeiture of rights to the amounts, whichever is later. Also, it assures that nonqualified deferred compensation will be taxed only once. The provision assures that certain deferred compensation and salary reduction plans are not used to avoid Social Security tax liability and that employes get Social Security protection based on such remuneration.

Extend Social Security coverage to all standby pay. Public Law 98-21 provides for coverage of payments (other than vacation or sick pay) made to an employee after the month in which he or she attains age 62 even if the employee did not work for the employer during the period for which the payment was made. (Such payments are often referred to as standby pay.) This provision is effective for payments made after December 31, 1983. For Social Security earnings-test purposes, the standby pay will count as earnings for the period for which the wages are paid. This provision is intended to close a loophole in the law that could have enabled some beneficiaries to continue working while avoiding Social Security taxes and benefit reductions under the earnings test.

Treatment of contributions under simplified employee pensions. This provision excludes from coverage employer contributions to a simplified employee pension plan. Previously, such contributions were excluded from Social Security taxes but not from coverage. Since the tax and coverage treatment for Social Security purposes were not the same, credit could be given for amounts not taxed. The amendment will be effective with respect to remuneration paid after December 31, 1983.

Effect of changes in names of State and local employee groups in Utah. Under prior law, Utah was permitted to extend Social Security coverage to specific entities listed in the law as separate coverage groups. This provision amends the law to take account of the fact that the names of some of the entities specifically listed in the law were changed after the provision was enacted. The amendment prevents confusion and potential conflict over whether the entities should continue to be treated as separate coverage groups for Social Security purposes.

Effective dates of international social security agreements. Under this provision, an international social security agreement can become effective after the expiration of a period during which at least one House of the Congress has been in session on each of 60 days. Prior law required a period during which both Houses were in session on each of 90 days. Because days on which either House failed to meet could not be counted under prior law, there were considerable delays in implementing agreements. This provision is effective for agreements submitted to Congress after enactment (April 20, 1983).

Codification of Rowan decision with respect to coverage of meals and lodging. This provision conforms the statutory language to the decision in *Rowan Companies, Inc.* v. *United States* (1981) that the value of meals and lodging furnished to an employee for the convenience of the employer is not wages for Social Security coverage and tax purposes. Also, it provides that an exclusion of income from income-tax withholding shall not affect the treatment of the income for Social Security coverage and taxation purposes. The *Rowan* decision could have been interpreted to mean that certain payments (other than meals and lodging) that are currently treated as covered wages under Social Security should not be taxed and credited under Social Security because they are not subject to income-tax withholding. Such an application of the *Rowan* decision would have decreased Social Security revenues and reduced employee protection. This provision will be effective with respect to remuneration paid after December 31, 1983.

Other OASDI Amendments

Technical and conforming amendments to the maximum family benefit provisions. This provision eliminates the January readjustment of the super maximum—the limit on combined maximum family benefits where a family is potentially eligible for benefits based on the earnings of two workers with maximum earnings. Under the new provision, once the super maximum is computed for a family, the limit thereafter increases on the basis of COLA's alone. Under prior law, the super maximum was recomputed each January based on wage increases. If wages did not increase at the same rate as the COLA, benefits based on the recomputed super maximum effective January for families on the rolls could be greater, or less, than benefits for the previous December. Thus, the January readjustment resulted in a benefit cut in times when wages did not rise as fast as prices and resulted in a benefit increase in times when wages rose faster than prices. The January readjustment is eliminated effective with respect to benefits for months after December 1983.

Relaxation of insured status requirements for certain workers previously entitled to a period of disability. Public Law 98-21 extends the application of the special disability insured status test for workers disabled before age 31. It provides that a worker who had a period of disability that began before age 31, who subsequently recovered, and then became disabled again at age 31 or later will again be insured for disability benefits if he or she has one quarter of coverage for every 2 calendar quarters elapsing after age 21 and through the quarter in which the later period of disability began, but applying the rules for excluding the prior period of disability (up to a maximum of 20 quarters of coverage out of 40 calendar quarters). This change provides relief to those workers who could otherwise not get disability benefits because they did not have time following recovery from an earlier disability to work long enough before a second disability to meet the 20-out-of-40 quarters insured status test. The provision is effective for benefits payable for months after April 1983.

Protection of benefits of illegitimate children of disabled workers. Effective with benefits for April 1983, Social Security monthly benefits are payable to the illegitimate child of a disabled worker for the first month *in* which the child satisfies all entitlement conditions even though the acknowledgment, court decree, or order establishing parenthood occurs later than the first day of the month. Prior law provided benefits for illegitimate children of disabled workers for the first month *throughout* which those conditions were satisfied. This provision removes the anomaly that existed because prior law deemed an acknowledgement, court decree, or court order establishing the parenthood of the illegitimate child of a retired worker to have occurred on the first day of the month in which it actually occurred.

Allow 1 month retroactivity of widow's and widower's benefits. Effective for benefits based on applications filed after June 1983, 1 month's retroactivity is provided for an aged widow(er) who files an application for actuarially reduced widow(er)'s benefits in the calendar month following the month in which his or her spouse died. This provision makes an exception to the rule, enacted in the Social Security Amendments of 1977, that bars the payment of retroactive benefits if the retroactive benefits would result in the reduction of future benefits. This provision facilitates payment in situations where death occurs late in the month and the widow(er) is under age 65 and fails to apply for benefits until the following month.

Nonassignability of benefits. The new law specifies that the provision in Social Security law (section 207) prohibiting assignment of Social Security or SSI benefits or subjecting them to the operations of bankruptcy laws may not be superseded by another law unless the other law does so by express reference to section 207. (The Social Security law continues to prohibit the transfer or assignment of any future Social Security or SSI benefits payable and to state that no money payable or rights existing under the Social Security or SSI programs should be subject to execution, levy, attachment, garnishment, or other legal process, or to the operation of any bankruptcy or insolvency law.) Based on the legislative history of the Bankruptcy Reform Act of 1978, some bankruptcy courts have considered Social Security and SSI benefits listed by the debtor to be income for purposes of bankruptcy proceedings under that Act and have ordered the Social Security Administration (SSA) in a number of cases to send all or part of a debtor's benefit check to the trustee in bankruptcy. This provision clarifies that such orders are not appropriate.

Use of death certificates to prevent erroneous benefit payments to deceased individuals. The Secretary of Health and Human Services (HHS) is required to establish a program under which the States can voluntarily contract with HHS to supply information derived from official death certificates. This information will be compared with benefit program records to prevent payments from being made to deceased persons. The provision includes safeguards to protect the confidentiality of State-supplied death information by exempting it from the Freedom of Information Act and authorizes reimbursement to the States for the cost of furnishing such information. The Secretary's 1984 Annual Report to the Congress is to include information on the status of this program.

Study of SSA as an independent agency. The chairmen of the Ways and Means and Finance Committees will appoint a three-person panel to conduct a study with respect to the implementation of establishing SSA as an independent agency. The panel is to be composed of experts in the fields of government administration,

social insurance, and labor relations and its report shall address managing the transition, authorities needing to be transferred or amended, the program(s) that should be included within the jurisdiction of the new agency, the relationship of SSA to other organizations required as a result of establishing SSA as an independent agency, and any other details that may be necessary. The panel will submit a report and recommendations to the chairmen of the committees no later than April 1, 1984.

Suspending payment of benefits to prisoners. Effective with benefits for months after April 1983, Public Law 98-21 prohibits the payment of OASDI benefits to convicted felons while they are in prison; benefits to auxiliaries based on an incarcerated individual's earnings will not be affected. This provision extends to all OASI benefits the prior-law provision that limited payment of disability and student benefits to prisoners convicted of a felony.

U.S. residency requirement for alien auxiliary and survivor beneficiaries outside the United States. The new law provides for suspending Social Security benefits for any alien auxiliary or survivor beneficiary who is outside the United States for more than 6 months unless the beneficiary resided in the United States for at least 5 years, during which the relationship of the beneficiary to the worker who is the basis for payment was in existence. Children who cannot meet the 5-year residency test on their own will be deemed to meet it if the test was met by the parent(s). Also, children adopted outside the United States will not be paid outside the United States. To a large extent, the provision avoids paying benefits to auxiliaries and survivors outside the United States who had little or no connection to the United States and who were not dependent on the worker for their livelihoods while he or she was working under Social Security in the United States. The provision does not apply if nonpayment would be contrary to a U.S. treaty obligation or to individuals who are citizens or residents of a country with which the United States has an international social security agreement. The provision is effective for individuals who initially become eligible for benefits after December 31, 1984.

Professors of clinical medicine. State universities that employ health care professionals as faculty members at medical schools and tax-exempt faculty practice plans that employ faculty members of the medical schools will be deemed to be related corporations for purposes of "common paymaster" rules, provided that 30 percent or more of the employees of the plans are concurrently employed by the medical schools. This provision is effective for remuneration paid after 1983.

Generally, an employer is required to pay Social Security taxes for its employees only on amounts up to the wage base. However, if an employee works for more than one employer during the year and his or her annual wages exceed the wage base, employer taxes can be paid on amounts in excess of the wage base. The "common paymaster" exception provides that if two or more related corporations employ the same individual, and pay him or her through a common paymaster that is one of the corporations, then the common paymaster is considered to be the only employer.

Foreign work test. This amendment changes the foreign work test to provide that retirement, auxiliary, and survivor beneficiaries will have benefits withheld for each month in which they are under age 70 and work for more than 45 hours in noncovered remunerative activity outside the United States. (However, the 7-day work test will continue to apply with respect to withholding an auxiliary benefit because of work performed by the retired worker.) The provision is effective with respect to benefits payable for months after April 1983.

Earnings sharing implementation report. Public Law 98-21 provides for a study by the Secretary of Health and Human Services, in consultation with the Senate Finance Committee and the House Ways and Means Committee, of the implementation of an earnings-sharing plan. The Secretary is also required to consult with the Congressional Budget Office (CBO), which, in turn, is required to submit a separate report on the methodology, recommendations, and analyses in the Secretary's report. The Secretary's report is due to the Congress by July 1, 1984, and the CBO report is due 30 days after submission of the HHS report.

Social Security cards. The new law requires that all new and replacement Social Security cards issued after October 30, 1983 (193 days after the date of enactment) must be made of banknote paper, and that the cards be as counterfeit-proof as practicable. It also provides that by July 19, 1983 (90 days after enactment), the Secretary shall report to Congress on the implementation plans for this provision.

Veterans Administration reorganization report. This provision waives the general requirement that the Veterans Administration (VA) provide advance notice to the Congress before reducing the staff in any of its offices by more than 10 percent in any fiscal year. The provision applies only to a planned administrative reorganization at the VA Los Angeles Data Processing Center involving the transfer of 25 full-time equivalent employees.

Supplemental Security Income Provisions

Delay of SSI COLA and increase in Federal SSI benefit standard. As discussed above, the SSI cost-of-living adjustments (COLA's) will now occur in January, rather than in July, beginning January 1984. Thus, SSI and OASDI COLA's will continue to occur at the same time. However, the percentages may differ in the future since OASDI COLA's may, depending on the condition

of the trust funds, be based on the lower change in either the CPI or average wages. The SSI COLA will be based on CPI changes even if the OASDI COLA is based on wage changes.

Effective July 1, 1983, however, the Federal SSI benefit standard is increased by $20 per month for individuals, $30 for couples, and $10 for "essential persons," as shown below:

Type of SSI recipient	Monthly Federal SSI payment standard June 1983	July 1983
Individuals	$284.30	$304.30
Couples	426.40	456.40
Essential persons	142.50	152.50

The increase in the Federal SSI benefit standard, in conjunction with the SSI COLA delay, increases SSI program costs by $3.74 billion for fiscal years 1983-88.

Mandatory State passthrough of Federal SSI benefit increases. A State that uses the payment level method will be found to meet the requirement that it pass through increases in the Federal SSI standard if it passes through only the amount of the increase in the Federal SSI standard that would have occurred in July 1983 under prior law ($9.70 for an individual and $14.60 for a couple) rather than the July 1983 increase of $20 a month for an individual ($30 a month for a couple) that is provided by Public Law 98-21. This will permit some States to reduce their supplement amounts, but they will be required to maintain combined Federal-State benefit levels at least equal to the March 1983 levels plus the July 1983 passthrough amount described above plus all subsequent increases in the Federal benefit level. Prior law permitted a State using the payment level method to maintain its December 1976 payment levels by passing through increases in the Federal SSI standard. The change that requires basing future passthroughs on March 1983 rather than December 1976 levels is intended to prevent States that have increased their payment levels since 1976 from reducing them to 1976 levels or levels between the December 1976 and March 1983 levels. The amendment continues the provision of prior law that permitted a State to meet the passthrough requirement by the aggregate expenditures method (that is, to spend at least the same amount for SSI supplementation in the current 12-month period as in the last 12-month period). The provision is effective on enactment (April 20, 1983) and has no effect on Federal costs.

SSI eligibility for temporary residents of emergency shelters for the homeless. Public Law 98-21 provides that aged, blind, and disabled residents of public emergency shelters for the homeless (to be defined in regulations) may be eligible for SSI payments for as many as 3 months in a 12-month period. Under prior law, residents of public institutions (excluding publicly operated community residences housing 16 or fewer persons and certain medical institutions) were not eligible for SSI payments for any full month of institutionalization. The provision is effective for months after April 1983 and increases SSI program costs by approximately $35 million through fiscal year 1988.

Disregard emergency and other in-kind assistance under the SSI and AFDC programs when provided by private nonprofit organizations. Under this provision, in-kind support and maintenance provided by a private nonprofit organization will be excluded from income under the SSI program if the State determines (under regulations issued by the Secretary) that such assistance is based on need. Previously, in SSI, the receipt of privately furnished in-kind support and maintenance (other than certain home energy assistance) generally caused a reduction in SSI benefits. For the Aid to Families with Dependent Children (AFDC) program, the amendment provides statutory authority for present policy that generally leaves the treatment of in-kind assistance to State decisions (except for the mandatory disregard of certain in-kind home energy assistance). This provision allows a charitable organization to assist a needy aged, blind, or disabled person or a needy family without causing a reduction in the recipients' SSI or AFDC benefits. The provision is effective for months after April 1983 and is temporary, expiring September 30, 1984. SSI program costs will be less than $1 million during the period that the provision is in effect.

SSI alert. The Secretary is required to provide, before July 1984, a one-time notice to all elderly OASDI beneficiaries who are potentially eligible for SSI payments of the availability of SSI. Also, effective on enactment, similar information on SSI availability is to be included with the standard notice to OASDI beneficiaries of upcoming eligibility for Supplementary Medical Insurance at age 65. The provision results in additional cumulative program costs of $618 million ($460 million Federal and $158 million State) through fiscal year 1988 and additional administrative costs of $32 million through fiscal year 1985.

Prospective Payments for Medicare Inpatient Hospital Services

The new law includes a major change in the method of payment under Medicare for inpatient hospital services. Effective with hospital cost-reporting periods beginning on or after October 1, 1983, for inpatient operating costs, Medicare will pay a fixed amount, determined in advance, for each case, according to one of 467 diagnosis-related groups (DRG's) into which a case is classified. The prospective payments will be considered payment in full; hospitals will be prohibited from charging beneficiaries more than the statutory deductible and coinsurance.

This system replaces the retrospective cost reimburse-

ment system and the cost-per-case limits and rate of increase ceiling created by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). The new prospective payment system will be structured to be "budget neutral" through fiscal year 1985—that is, Medicare inpatient hospital costs incurred under the system will be neither more nor less than projected under the TEFRA provisions.

Hospitals covered. The prospective payment system will apply to all Medicare participating hospitals except psychiatric, long-term care (with an average stay greater than 25 days), children's and rehabilitation hospitals, and hospitals outside the 50 States and the District of Columbia. Rehabilitation and psychiatric units of acute care hospitals are also exempt. These hospitals will continue to be reimbursed under the target rate of increase limits enacted in TEFRA.

Special treatment is provided for hospitals that (because of location, weather, and travel factors) are designated as sole community providers. Payment to these hospitals during the transition period and afterward will be made at the rate specified for the first year of implementation for other hospitals—75 percent of the payment will be based on the hospital's cost experience and 25 percent on the regional DRG rate. The Secretary must also make adjustments, over a 3-year period, for fixed and core staff costs incurred in the event of a 5-percent decrease in workload from a previous year, due to circumstances beyond the hospital's control.

Exceptions and adjustments will also be made, as the Secretary finds appropriate, to account for the special needs of public or other hospitals serving a disproportionately large number of low-income and Medicare Part A patients, hospitals that are national or regional referral centers (including rural hospitals with over 500 beds), hospitals involved extensively in cancer research and treatment, and hospitals in Alaska and Hawaii.

Services covered. Effective October 1, 1983, all nonphysician services provided in an inpatient setting will be paid only as inpatient hospital services under Part A (Hospital Insurance). The Secretary may waive this restriction during the 3-year transition period for hospitals that, before October 1, 1982, allowed direct billing under Part B (Supplementary Medical Insurance) so extensively that immediate implementation of the restriction would threaten the stability of patient care. Part B payments made under such a waiver will be deducted from payments made to the hospital under the prospective system. At the end of the waiver period, the Secretary may provide for Part A payment methods appropriate to the organizational structure of the institution.

Transition period. The prospective payment system will be phased in over a 3-year period by cost-reporting periods that begin on or after October 1, 1983. During this time, payment rates will be a blend of hospital-specific amounts based on hospital cost experience, and national and regional (for nine census divisions) DRG amounts for both urban and rural hospitals:

- In the first cost-reporting period under prospective payment, the Medicare payment per discharge will be 25 percent of the regional DRG rate plus 75 percent of the hospital-specific rate.
- In the second cost-reporting period, the Medicare payment per discharge will be 50 percent of a combination of national and regional DRG rates (25 percent national, 75 percent regional) plus 50 percent of the hospital-specific rate.
- In the third and last cost-reporting period of the system's phasein, the Medicare payment per discharge will be 75 percent of a combination of national and regional rates (50 percent national, 50 percent regional) plus 25 percent of the hospital-specific rate.

Effective with hospital cost-reporting periods beginning on or after October 1, 1986, the Medicare payment will be 100 percent of the national urban or rural DRG rate for each discharge.

Calculation of hospital-specific costs. The portion of the Medicare payment per discharge based on hospital cost experience will be the hospital's payment under the TEFRA rate-of-increase limits, without regard to section 223 limits, penalties, or bonuses and with annual updates for inflation. Adjustments can be made to base-year costs to make them comparable to the inpatient costs under the prospective system. For example, Social Security taxes for nonprofit hospitals whose employees will now be covered under Social Security will be added to base-year costs to reflect additional costs that would have been incurred in the base year if the hospital had been in the Social Security system. The TEFRA provision that reduced Medicare payments to reflect lower payroll costs of hospitals that terminated Social Security coverage for their employees has been repealed.

Calculation of DRG rates. Using the most recent cost-reporting data available, allowable inpatient operating costs per discharge are determined for individual hospitals. The costs are then updated for fiscal year 1983 by the estimated national average rate of inflation in hospital costs. For fiscal year 1984 the hospital per discharge costs will be updated by the projected national hospital market basket rate plus 1 percent. The per discharge costs are then standardized by excluding estimated indirect medical education costs and adjusting for variations in case-mix and area wages. Urban and rural averages are then computed for the United States and the nine census divisions. These standardized average amounts are reduced to offset additional payments for unusually long stay or expensive cases (that is, out-

liers), and to achieve budget neutrality, if necessary, with projected reimbursement under the TEFRA cost limits. The DRG-specific rates for the United States and the regions are then calculated by applying a weighting factor reflecting the relative hospital resources used for discharges within the various DRG's. Finally, the DRG-specific rates are adjusted to reflect differences in area hospital wages compared with the national average wage level.

Annual increases. For fiscal year 1985, the DRG rates will be increased by the rate of increase in the hospital market basket plus 1 percent. These rates could be reduced for outlier payments and to achieve budget neutrality. Beginning with fiscal year 1986, the annual increase in DRG rates will be determined by the Secretary. The increases must take into account amounts necessary for the "efficient and effective delivery of medically appropriate and necessary care of high quality." The Prospective Payment Assessment Commission (see page 40) will review the annual increase factor and provide its recommendations to the Secretary not later than April 1 of each year. The Secretary will publish the proposed annual increase factor in the **Federal Register** by June 1 and the final annual increase factor by September 1 of each year.

DRG recalibration. The Secretary must adjust the DRG classifications for fiscal year 1986 and at least every 4 years thereafter to reflect changes in treatment patterns, technology, and other factors affecting hospital resource utilization. The Prospective Payment Assessment Commission will consult with the Secretary and make recommendations on the need for adjustments based on its evaluation of new practices, technologies, and treatment modalities. The Commission will also report to Congress on its evaluation of adjustments made by the Secretary.

Atypical cases ("outliers"). Payments in addition to the DRG rate will be made for cases that exceed the mean length of stay for the DRG by a fixed number of days or by a certain number of standard deviations, or at the hospital's request, for cases whose costs exceed a fixed multiple of the appropriate DRG rate or other fixed amount. The additional payment will approximate the marginal costs of care beyond the outlier cutoff criteria (days or dollar amounts). The total proportion of outlier payments cannot be less than 5 percent or more than 6 percent of total DRG-related payments in any year.

Capital expenses. Capital expenses are specifically excluded from the prospective payment system until October 1, 1986. Until that time, they will be reimbursed on a reasonable-cost basis. The Secretary must complete, within 18 months, a review of methods to incorporate capital expenses (including return on equity) into the prospective payment system. The law specifies that, when capital-related costs are brought into the prospective system, no assurances may be given that capital costs obligated on or after implementation of that system will be treated in the same manner as expenditures obligated before the implementation date.

(1) *Return on equity*: Effective for cost-reporting periods beginning on or after the date of enactment, the rate of return on equity for proprietary hospitals will be reduced from 150 percent of the average rate of interest paid by the Federal Treasury on the assets of the Hospital Insurance trust fund to 100 percent of that rate.

(2) *Section 1122 review*: In the absence of further legislation, Medicare payment for capital projects obligated after September 30, 1986, will be subject to the approval of section 1122 agencies. Capital expenditures made by health care facilities will be exempt from section 1122 review if 75 percent of their patients are HMO (Health Maintenance Organization) or CMP (Competitive Medical Plan) enrollees, if the services and facilities are needed to operate efficiently and economically, and if the services are not otherwise readily accessible for one of several specified reasons. In addition, effective upon enactment, the financing of section 1122 reviews would be made from general revenues. Hospitals will be required to make their capital budgets available to the section 1122 or other appropriate agency. States may set their own dollar thresholds for review, not to exceed a maximum of $600,000.

Medical education expenses. The direct costs of approved educational programs are specifically excluded from the prospective payment system and will be paid on the basis of reasonable cost. Adjustments for the indirect costs of medical education under the prospective payment system will be paid at twice the factor used to adjust for such costs by applying the same methodology currently in effect.

Cost reporting. A system of cost reporting for hospitals under the prospective payment system will be maintained during the 3-year transition period and for at least 2 years afterward (until the end of fiscal year 1988).

Administrative and judicial review. Administrative and judicial review is permitted in all cases except for the DRG classifications and weights and the level of the payment necessary to maintain budget neutrality in fiscal years 1984 and 1985. Group appeals may now be made in the judicial district in which the greatest number of such providers is located. Appeals to the Provider Reimbursement Review Board for action for

judicial review brought by providers under common ownership or control will have to be brought as a group when the matter involves a common issue.

State cost-control systems.

(1) *State requirements*: The Secretary has the authority to approve Medicare payment under a State cost-control system, if the system meets the four requirements first enacted in the TEFRA legislation plus two additional requirements. To qualify, States systems must

- Apply to substantially all non-acute care hospitals in the State;
- Apply to at least 75 percent of all inpatient revenues or expenses;
- Provide assurances that payors, hospital employees, and patients are treated equitably;
- Provide assurances that the State's system will not result in greater Medicare expenditures over a 3-year period;
- Not preclude HMO's or CMP's from negotiating directly with hospitals concerning payment for inpatient services; and
- Prohibit payments under Part B for nonphysician services provided to inpatients, unless waived in accordance with regulations that the Secretary is required to publish.

The Secretary can neither deny a State's application because it is not based on a DRG payment methodology, nor require that Medicare expenditures under the State system be less than they would have been under the Federal prospective payment system.

(2) *Mandatory approval*: The Secretary must approve State applications that meet the requirements for discretionary approval, plus additional requirements that the system must

- Be operated directly by the State or entity designated by State law;
- Use prospective methodology;
- Provide for hospital reports, as required by the Secretary;
- Provide satisfactory assurances that it will not result in admission practices that will reduce treatment to low income, high cost, or emergency patients;
- Not reduce payments without 60 days notice to the Secretary and to hospitals; and
- Provide satisfactory assurances that, in developing the program, the State has consulted with local officials concerning the impact on public hospitals.

The Secretary must respond to States applying under these conditions within 60 days following submission of the request.

(3) *Existing State programs*: States now operating approved cost-control systems (Maryland, New Jersey, New York, and Massachusetts) will be allowed to continue as long as they meet five requirements for discretionary approval (all but prohibiting payment under Part B for nonphysician inpatient hospital services). The Secretary must modify the demonstration agreements with the States of New York and Massachusetts, if requested by the State or a party to the agreement, so that the demonstrations are not required to keep the State rate of increase in Medicare hospital expenditures at least 1 1/2 percentage points below the national rate of increase. The Secretary must also judge the effectiveness of the existing State systems during the three cost-reporting periods beginning on or after October 1, 1983. For the purpose of the evaluation, States have the option, during the transition, of having the rate of inflation apply in either aggregrate payments or payments per admission or discharge compared with the national rate of increase.

(4) *Reduction in payments*: If the cost of a State system exceeds the amounts that would have been paid under the Federal system over a 3-year period, the Secretary may reduce subsequent payments to hospitals by the amount in excess.

Admissions and Quality Review—Contracts With Peer Review Organizations.

Requirements for PRO agreements. Effective October 1, 1983, hospitals under a prospective payment system (Federal or State) will have to contract for review services with a PRO, if one exists in their areas. Beginning October 1, 1984, hospitals must have a contract with a PRO as a condition for Medicare payment. If there is no PRO in the area, the hospital will not receive payment. Hospitals that have contracted with a PRO that is subsequently terminated by the Secretary will not be penalized for 6 months while the Secretary contracts with a new PRO. The 12-month waiting period for intermediaries to qualify as PRO's will begin on the date the Secretary enters into contracts on or before October 1, 1983, whichever is earlier.

(1) *PRO review functions*: The specified functions of a PRO include reviewing: (a) the validity of diagnostic information provided by hospitals; (b) the completeness, adequacy, and quality of care provided; (c) the appropriateness of admissions and discharges; and (d) the appropriate-

ness of care for which outlier payments are made.

(2) *Payments to PRO's*: PRO review is considered a Part A hospital cost, but the PRO will be paid directly by the Secretary on the basis of a rate per review. The Secretary will determine the review rate, which can be no less than the fiscal year 1982 review rate for both direct and administrative costs, adjusted for inflation. PRO funding will come from the trust fund and will not be subject to appropriations.

(3) *Penalties*: Based on PRO findings, the Secretary may deny payment for unnecessary or multiple admissions, or require hospitals to take necessary action to correct medical or other practices.

Studies, demonstrations, and reports. The Secretary is required to study and report to Congress on the following:

- *Capital-related costs*: The method by which capital costs, such as return on equity, associated with inpatient hospital services can be included in the prospective payment system. Due date: 18 months following enactment.

- *Annual impact report*: The impact in the previous year of the prospective payment methodology on providers, beneficiaries, and other payors of hospital care, and the impact of computing DRG rates by census division, rather than on a national basis. The report must include recommendations for appropriate legislative changes. Due date: by the end of each year for 1984 through 1987.

- *Skilled-nursing facilities:*
  - The impact of hospital prospective payments systems on skilled-nursing facilities (SNF's) and recommendations concerning SNF's. Due date: by the end of 1983.
  - Requires the Secretary to conduct demonstrations with hospitals in areas with critical shortages of SNF's to study the feasibility of providing alternative systems of care or methods of payment.
  - The effect of a single limit of SNF reimbursement on hospital-based SNF's, given the differences (if any) in the patient populations served by such facilities and by community-based SNF's. Due date: by December 31, 1983.

- *Inpatient physicians' services*: Requires the Secretary, during fiscal year 1984, to begin the collection of data necessary to compute, by DRG's, the amount of physician charges for services furnished to hospital inpatients classified in those DRG's. The report to Congress must include recommendations on the advisability and feasibility of determining payments for inpatient physicians' services on a DRG-type classification. Due date: 1985.

- *Urban/rural rates*: The feasibility and impact of eliminating or phasing out separate urban and rural DRG rates. Due date: at the end of 1985 as part of the 1985 annual impact report.

- *Prospective payment for exempted hospitals*: The feasibility and methodology by which hospitals not included in the prospective payment system can be paid on a prospective basis for inpatient services. Due date: at the end of 1985 as part of the 1985 annual report.

- *Payments for outliers and modifications to the DRG's*: Appropriateness of factors used to compensate hospitals for outlier cases, and the feasibility and advisability of modifying the DRG's by the application of severity of illness, intensity of care, or other factors. Due date: at the end of 1985 as part of the 1985 annual report.

- *All payor system*: The feasibility and desirability of all inpatient hospital payors participating in a prospective payment system, including consideration of cost-shifting to nonfederal payors and the impact on health insurance costs and premiums paid by employers and employees. Due date: At the end of 1985 as part of the 1985 annual report.

- *Impact on admissions*: Adjustment in the DRG rates or requiring pre-admission certification in order to minimize the incentive to increase admissions. Due date: at the end of 1985 as part of the 1985 annual report.

- *Impact of State systems*: The overall impact of State hospital payment systems approved under the Social Security Act on the Medicare and Medicaid programs, on payments and premiums under private health insurance plans, and on tax expenditures. Due date: at the end of 1986 as part of the 1986 annual report.

- *Sole community providers*: Requires the Secretary to study and make legislative recommendations on an equitable method of reimbursing sole community providers, taking into account their unique vulnerability to substantial variations in occupancy. Due date: by April 1, 1985.

- *Information transfer between Parts A and B*: Examine ways to coordinate an information transfer between Parts A and B of Medicare, particularly where a denial of coverage is made in the reimbursement to the admitting physician(s). Due date: by April 1, 1985.

- *Uncompensated care costs*: The appropriate treat-

ment of uncompensated care costs and adjustments that might be appropriate for large teaching hospitals in rural areas. Due date: by April 1, 1985.

- *Making hospital cost information available*: The advisability of hospitals making information available on the cost of care to patients financed by public and private payors. Due date: April 1, 1985.
- *The territories and Puerto Rico*: A methodology for including hospitals located outside of the 50 States and the District of Columbia under a prospective payment system. Due date: by April 1, 1984.

Prospective Payment Assessment Commission. The Director of the Congressional Office of Technology Assessment (OTA) will arrange for appointment of a 15-member commission of independent experts by April 1, 1984, for a term of 3 years. Initial terms may be shorter so that the terms of no more than seven members expire in any year. The membership must provide expertise and experience in the provision and financing of health care. Subject to the review of OTA, the commission may hire staff, seek assistance and support from Federal agencies (including access to relevant information), award grants or contracts (including those for original research and experimentation, including clinical research), and prescribe necessary rules and regulations for its internal organization and operation. The commission shall

- Review and provide recommendations to the Secretary on DRG recalibrations for fiscal year 1986 and at least every 4 years thereafter;
- Review and provide recommendations to the Secretary on the annual increase factor beginning with fiscal year 1986;
- In order to make recommendations on DRG recalibrations, collect and assess information on the safety, efficacy, and cost-effectiveness of new and existing medical and surgical procedures and services (including regional variation in medical practice), lengths of hospitalization and other patient-care data, with special attention to treatment patterns for costly or inappropriate care not conducive to increasing quality.

Necessary appropriations will be made from the Medicare trust funds (85 percent from the Hospital Insurance trust fund and 15 percent from the Supplementary Medical Insurance trust fund) to fund the commission's activities. The OTA has unrestricted and immediate access to all deliberations, records, and data of the commission and must report annually to Congress on the functions and progress of the commission and on the status of the assessment of medical procedures and services.

Other Medicare provisions.

Delay of single reimbursement limit for skilled-nursing facilities: The effective date for the single reimbursement limit for hospital-based and community based SNF's is delayed to cost-reporting periods beginning on or after October 1, 1983.

Shift in Medicare premiums to coincide with cost-of-living increase: The Part A and Part B premiums will remain at the June 1983 amounts through December 1983, after which premium adjustments will be made on a calendar year basis. The provision requiring that the Part B premium equal at least half of the actuarial rate for aged enrollees will terminate in January 1986 instead of July 1985. The Secretary will promulgate new actuarial premiums during the September before the calendar year in which the premiums will be effective. The actuarial assumptions and other bases for arriving at an adequate premium amount will be issued at the same time.

On Lok demonstration: Within 30 days following enactment, the Secretary must approve, with appropriate terms and conditions, the applications of the On Lok Senior Health Services (dated July 2, 1982), and the California Department of Health Services (dated November 1, 1982), for a 36-month waiver of certain Medicare and Medicaid requirements to carry out a demonstration project for capitated reimbursement of comprehensive long-term services.

Unemployment Compensation Provisions

This provision modifies and extends for 6 months the Federal Supplemental Compensation program, which was due to expire March 31, 1983. This program provides additional weeks of federally financed Unemployment Compensation benefits to jobless workers who have exhausted all other State and Federal unemployment benefits.

III. Financial Implications of OASDI and Medicare Provisions

The enactment of the OASDI and Medicare provisions of the Social Security Amendments of 1983 (Public Law 98-21) substantially restores the financial integrity of the OASDI system in both the short- and the long-range and improves the financial status of the Hospital Insurance program (Part A of Medicare).[21]

[21] The estimates used in this article are the same as those used during congressional consideration of the 1983 amendments. The economic and demographic assumptions are similar to those used subsequently in the 1983 Reports of the Boards of Trustees of the OASI, DI, and HI Trust Funds, except that the estimates used in the Trustees Reports, issued June 24, 1983, were updated to reflect actual experience in the early part of 1983.

The 1982 Annual Reports of the Boards of Trustees of the OASI, DI, and HI trust funds showed that both the OASDI and the HI programs faced serious financing difficulties and that, without remedial legislation, the OASI trust fund would be unable to make timely benefit payments after June 1983.[22] Over the long range (75 years), the OASDI program was estimated to have a deficit of 1.82 percent of taxable payroll (6.47 percent under the more pessimistic Alternative III assumptions). The Hospital Insurance trust fund was expected to decline in the near term and to be depleted in 1987 under the Alternative II-B assumptions (1986 under Alternative III); the 25-year deficit for the HI program was estimated at 2.07 percent of payroll (3.73 percent under the Alternative III assumptions).

In its 1982 Report, the Boards of Trustees of the OASI and DI trust funds noted that the National Commission on Social Security Reform (NCSSR) was expected to make its report by the end of the year and therefore made no separate recommendations for remedial legislation. In addition, the Board of Trustees of the HI trust fund recommended enactment of the administration's package of legislative proposals to help curtail the rapid growth of the cost of the Hospital Insurance program, which was partially accomplished, and only on a temporary basis, in the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA).

In February 1983, revised cost estimates, using 1983 assumptions, were prepared for use in evaluating the financial status of then-current law, the financial implications of the NCSSR recommendations, and the legislation being developed in the Congress. These estimates confirmed the inability of the OASI trust fund to make timely benefit payments beyond June 1983 and showed an OASDI revenue/expenditure shortfall of some $115-$120 billion under Alternative II-B ($195-$200 billion under Alternative III) for the remainder of the 1980's. The long-range deficit of the OASDI program was shown to be 2.09 percent of taxable payroll under Alternative II-B assumptions. The increase over the deficit as estimated in 1982 was due largely to the assumed lower fertility and higher unemployment rates, the later valuation date, and the inclusion of a factor for withdrawals from coverage (which additional costs were partially offset by lower assumed disability incidence rates).

On the basis of these 1983 assumptions, the NCSSR proposals were expected to produce some $164.6 billion, cumulatively, for 1983-89 under the Alternative II-B assumptions ($180.0 billion under Alternative III). Over the long term, the NCSSR bipartisan package was estimated to reduce the deficit by 1.41 percent of payroll, with the remaining deficit of 0.68 percent of payroll, under Alternative II-B assumptions, to be met through increased taxes, changes in retirement age, or other measures.

For the Hospital Insurance part of Medicare, the estimates prepared in February 1983 reflected not only the effect of the 1983 assumptions but also the changes enacted in the 1982 TEFRA. With these changes, and with assumed repayment over the period 1985-87 of prior loans to the OASI trust fund, the HI trust fund was expected to begin operating on very low reserves in 1985 and to be exhausted in 1988. If, in addition, it was assumed that the OASDI proposals of the NCSSR would be extended to HI and savings from the prospective reimbursement provisions in TEFRA would continue beyond the "sunset" date of October 1985, the HI trust fund was expected to remain in a stronger position for the next 5 years, but still to be depleted by 1990 (under the Alternative II-B assumptions).

Estimates for the OASDHI programs are customarily shown on the basis of several alternative sets of economic and demographic assumptions. The assumptions range from "optimistic" (Alternative I) to "intermediate" (Alternatives II-A and II-B) to "pessimistic" (Alternative III). The intermediate II-B assumptions are considered to be the most realistic of the four sets of assumptions. Both the intermediate II-B assumptions and the pessimistic Alternative III assumptions were used extensively during the development of the recommendations of the National Commission on Social Security Reform and the ensuing legislation.

Under the Alternative II-B assumptions, the economy is assumed to experience a gradual recovery from the 1981-82 recession, with moderate but steady growth thereafter. The Alternative III assumptions incorporate a slow recovery in 1983 and slow but steady growth thereafter.

OASDI

Short range. Under the economic assumptions used for the 1983 Alternative II-B estimates, Public Law 98-21 is shown to provide a total of $166.2 billion during the period 1983-89 in additional revenues or reduced expenditures. Table 1 shows the revenue and benefit effects of the various OASDI provisions of Public Law 98-21. Of the total for the period 1983-89, the delay in the COLA and the shifts in the Social Security tax schedule for employees and employers each account for about $39.4 billion; $26.6 billion comes from the income taxation of benefits of higher-income beneficiaries and about $21.8 billion is due to the proposed extensions of Social Security coverage; the major elements of the remaining $39 billion are the tax increases for the

[22] A provision enacted in December 1981 authorized borrowing among the OASI, DI, and HI trust funds through December 31, 1982, including the borrowing of funds sufficient to meet benefit expenditures for no more than the first 6 months of 1983. Under this provision the OASI trust fund received a total of $5.1 billion from the DI trust fund and $12.4 billion from the HI trust fund as of the end of 1982 and it was expected that the OASI benefits could be paid on a timely basis only through June 1983. This projection was true under all sets of assumptions used in the 1982 Trustees' Reports. See John A. Svahn. "Restoration of Certain Minimum Benefits," **op. cit.**

Table 1.—Estimated changes in OASDI tax income, general fund transfers, and benefit payments resulting from provisions in Public Law 98-21, under 1983 Alternative II-B assumptions, calendar years 1983-89

[In billions]

Provision	Calendar year							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Total for all changes	$22.8	$19.2	$13.9	$15.3	$18.0	$35.8	$41.2	$166.2
Increase tax rate on covered wages and salaries	...	8.6	0.3	...	...	14.5	16.0	39.4
Increase tax rate on covered self-employment earnings	...	1.1	3.1	3.0	3.2	3.7	4.4	18.5
Total for new coverage	...	1.5	2.2	3.0	3.9	5.0	6.1	21.8
Cover all Federal elected officials and political appointees	...	(1)	(1)	(1)	(1)	(1)	(1)	.1
Cover new Federal employees	...	.2	.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees	...	1.3	1.5	1.8	2.1	2.6	3.0	12.4
Prohibit State and local government terminations	...	.1	.2	.4	.6	.8	1.1	3.2
Accelerate collection of State and local taxes	...	.6	(1)	(1)	.1	.1	.1	1.0
Modify general fund reimbursement methods for military service credits	18.4	−.4	−.4	−.3	−.4	−.4	−.4	16.1
Provide general fund transfers for unnegotiated checks	1.3	.1	.1	.1	.1	.1	.1	1.6
Delay benefit increases 6 months	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Limit benefit increases to lesser of wage or price increase, under certain conditions	...	...	(2)	(2)	(2)	(2)	(2)	(2)
Continue benefits on remarriage	...	(3)	(3)	(3)	(3)	(3)	(3)	−.1
Modify indexing of deferred survivor benefits	...	...	(3)	(3)	(3)	(3)	(3)	(3)
Raise disabled widow(er)'s benefits to 71.5 percent of PIA	...	−.2	−.2	−.2	−.2	−.3	−.3	−1.4
Pay divorced spouses whether or not worker has retired	...	...	(3)	(3)	(3)	(3)	(3)	−.1
Replace 90-percent factor in benefit formula with variable percentage, for individuals receiving pensions from noncovered employment	...	...	...	(4)	(4)	(4)	.1	.1
Offset spouses' benefits by up to two-thirds of noncovered government pension	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Expand use of death certificates to stop benefits	(4)	(4)	(4)	(4)	(4)	(4)	(4)	.1
Impose 5-year residency requirement for certain aliens	...	...	(4)	(4)	(4)	(4)	(4)	.1
Tax one-half of benefits for high-income beneficiaries	...	2.6	3.2	3.9	4.7	5.6	6.7	26.6
All other miscellaneous and technical changes	(3)	(3)	(3)	(3)	(3)	(3)	(3)	−.1

[1] Net additional taxes of less than $50 million.

[2] Although it is not expected that this provision would "trigger" (that is, actually take effect) under the Alternative II-B assumptions, relatively small variation from these assumptions could cause it to trigger. Under Alternative III assumptions it would take effect with respect to the benefit increases for December 1984 and December 1985.

[3] Additional benefits of less than $50 million.

[4] Reduction in benefits of less than $50 million.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

self-employed and the general revenue reimbursement for military service credits. Using Alternative III assumptions the total in additional revenues and reduced expenditures is higher—about $220.7 billion—but so, of course, is the need.

With these additional revenues and expenditure reductions, the short-range financial soundness of the OASDI program is restored under both the Alternative II-B and III assumptions. Tables 2 and 3 show the progress of the OASI, DI, HI, and combined funds over the period 1982-92 under each set of economic assumptions. The combined OASI and DI trust funds maintain their position relative to annual expenditures over the next 5 years under the 1983 Alternative II-B assumptions and decline relative to expenditures if experience proves closer to the Alternative III assumptions. After 1988, under both sets of 1983 assumptions, the combined funds are expected to grow relative to expenditures.

During the period 1983-88, the ratios of trust fund assets to expenditures are significantly affected by repayment under the interfund borrowing provisions and by the normalized tax accounting procedures adopted in Public Law 98-21. For example, under the Alternative II-B assumptions, if there were no normalization procedure, OASDI assets would represent only about 15 percent of annual contributions over this period. However, as tables 2 and 3 show, the combined trust fund ratio is expected to range from 22 percent to 24 percent under Alternative II-B and 20 percent to 16 percent under Alternative III. The drop in the ratio to 16 percent at the beginning of 1988 under Alternative III is due to the full repayment, in 1987, of the monies borrowed from the HI trust fund.

Also, under the Alternative III assumptions, the stabilizer provision of Public Law 98-21 would take effect in the short range. Under the Alternative III assumptions, this provision would limit the OASDI benefit increases for December 1984 and December 1985. This result would occur because (1) the OASDI "trigger ratio" of less than 15 percent (excluding borrowed funds) would be reached and (2) the assumed increases in average wages are less than the assumed increases in prices.[23]

[23] The OASDI benefit increases for 1984 and 1985 (4.3 percent and 6.8 percent, respectively, under these 1983 assumptions) are based on assumed average wage increases in 1983 and 1984, respectively. The higher corresponding Consumer Price Index increases, which would otherwise determine the benefit increases, are assumed to be 7.8 percent and 7.4 percent, respectively. All persons eligible for benefits for December 1990 would receive at least the assumed increase of 5.0 percent; however, under the "catch-up" provision, those beneficiaries who were also eligible for December of both years 1984 and 1985, and those who were eligible for December 1985 but not for December 1984, would receive total benefit increases of 9.1 percent and 5.6 percent, respectively.

Table 2.—Estimated operations of the combined OASI and DI trust funds and of the HI trust fund under the OASDHI program as amended by Public Law 98-21, under the **1983 Alternative II-B assumptions**, calendar years 1982-92

[Amounts in billions]

Calendar year	Income			Outgo			Interfund borrowing transfers [1]		Net increase in funds			Funds at end of year			Assets at beginning of year as percentage of outgo during year [2]		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$147.9	$38.0	$185.9	$160.1	$36.1	$196.3	$12.4	-$12.4	$0.2	-$10.6	-$10.3	$24.8	$8.2	$32.9	15	52	22
1983	171.9	44.7	216.6	169.4	41.1	210.5	...	...	2.6	3.6	6.1	27.4	11.7	39.1	15	20	16
1984	182.4	45.9	228.3	180.5	46.8	227.4	-.3	.3	1.6	-.6	1.0	29.0	11.1	40.1	22	25	23
1985	202.5	52.2	254.7	197.5	53.0	250.4	...	...	5.0	-.7	4.3	34.0	10.4	44.4	22	21	22
1986	221.3	60.2	281.5	216.4	59.9	276.3	-1.6	1.6	3.4	1.9	5.3	37.4	12.3	49.7	23	17	22
1987	241.4	65.2	306.6	234.5	67.5	302.0	-2.3	2.3	4.6	(3)	4.6	42.0	12.3	54.3	23	18	22
1988	278.5	69.8	348.3	235.6	75.9	329.5	-8.2	8.2	16.7	2.2	18.9	58.7	14.5	73.2	24	16	22
1989	304.6	74.4	379.0	272.9	85.5	358.4	...	...	31.6	-11.1	20.6	90.3	3.4	93.7	29	17	26
1990	336.5	78.7	415.1	292.9	95.1	388.0	...	...	43.6	-16.4	27.2	133.9	-13.0	120.9	39	4	30
1991	363.9	82.7	446.6	312.8	104.9	417.8	...	...	51.1	-22.2	28.9	185.0	-35.2	149.8	51	-12	35
1992	393.0	86.8	479.7	332.5	116.1	448.6	...	...	60.4	-29.3	31.1	245.4	-64.5	180.9	64	-30	39

[1] Positive figures represent amounts borrowed by trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by trust fund or repayments of prior loans from other trust funds.

[2] Assets at beginning of year are defined for the OASI and DI trust funds as assets at end of prior year plus respective OASI and DI advance tax transfers for January.

[3] Between $0 and $50 million.

Note: Based on this set of assumptions, the HI trust fund would be depleted in 1990. Subsequent HI operations as shown above are theoretical.

Table 3.—Estimated operations of combined OASI and DI trust funds and of HI trust fund under the OASDHI program as amended by Public Law 98-21, under **1983 Alternative III assumptions**, calendar years 1982-92

[Amounts in billions]

Calendar year	Income			Outgo			Interfund borrowing transfers [1]		Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year [2]		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$147.9	$38.0	$185.9	$160.1	$36.1	$196.3	$12.4	-$12.4	$0.2	-$10.6	-$10.3	$24.8	$8.2	$32.9	15	52	22
1983	171.2	44.5	215.8	169.4	41.1	210.6	...	...	1.8	3.4	5.2	26.6	11.6	38.1	15	20	16
1984	179.0	45.1	224.1	181.0	47.0	228.0	...	...	-2.1	-1.9	-3.9	24.5	9.7	34.2	22	25	22
1985	197.3	50.9	248.3	194.4	53.8	248.2	...	...	2.9	-2.9	.1	27.5	6.8	34.2	20	18	19
1986	216.6	58.8	275.4	213.8	62.1	275.9	...	...	2.8	-3.3	-.5	30.3	3.4	33.7	20	11	18
1987	236.7	63.4	300.1	233.7	71.3	305.0	-12.4	12.4	-9.5	4.5	-5.0	20.8	8.0	28.8	20	5	17
1988	272.9	67.4	340.3	254.7	81.7	336.4	...	...	18.2	-14.3	3.9	39.0	-6.3	32.7	16	10	14
1989	298.7	71.4	370.1	275.8	93.8	369.6	...	...	22.9	-22.4	.5	61.9	-28.7	33.2	22	-7	15
1990	330.5	74.7	405.2	297.8	106.4	404.2	...	...	32.7	-31.7	.9	94.6	-60.5	34.1	29	-27	14
1991	358.8	77.8	436.5	320.3	120.1	440.4	...	...	38.4	-42.3	-3.9	133.0	-102.8	30.2	37	-50	14
1992	389.0	80.6	469.6	353.5	135.9	489.4	...	...	35.6	-55.3	-19.7	168.6	-158.1	10.5	45	-76	12

[1] Positive figures represent amounts borrowed by trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by trust fund or repayments of prior loans from other trust funds.

[2] Assets at beginning of year are defined for the OASI and DI trust funds as assets at end of prior year plus respective OASI and DI advance tax transfers for January.

Note: Based on this set of assumptions, the HI trust fund would be depleted in 1988. Subsequent HI operations as shown above are theoretical.

As a result of the benefit increase limitations that would occur under Alternative III and the 1988 tax rate increase, OASDI assets would begin to accumulate in 1988. By the beginning of 1991, the assets ratio would exceed 32 percent and the "catch up" part of the stabilizer provision would become effective. Thus, the December 1991 benefit increase would be augmented for those affected by the 1984 and 1985 benefit increase limitations. Their benefit levels could be completely "caught up" by the additional benefit increase in December 1991 without drawing the trust fund ratio below 32 percent in the following year.

Long range. The Social Security Amendments of 1983 reduce the long-range cost (or increase the income) of the OASDI program by an estimated 2.09 percent of taxable payroll with the result that, under the 1983 Alternative II-B assumptions, the OASDI program is estimated to be in exact actuarial balance. This estimated long-range balance is comprised of an estimated balance of −0.03 percent of taxable payroll for OASI and +0.03 percent of taxable payroll for DI. The estimated long-range effects of the individual provisions of Public Law 98-21 are shown in table 4. These long-range projections are in marked contrast to those of the last decade, which indicated substantial deficits over the 75-year projection period.

Table 5 shows the average cost rates, income rates, and actuarial balance over the long range under Public

Table 4.—Estimated long-range OASDI cost effect of the Social Security Amendments of 1983

Section	Provision	Effect as percent of payroll		
		OASI	DI	OASDI
	Present Law:			
	Average cost rate	13.04	1.34	14.38
	Average tax rate	10.13	2.17	12.29
	Actuarial balance	−2.92	+.83	−2.09
	Changes included in titles I and III of the amendments: [1]			
101	Cover new Federal employees	+.26	+.02	+.28
102	Cover all nonprofit employees	+.09	+.01	+.10
103	Prohibit State and local terminations	+.06	+.00	+.06
111	Delay benefit increases 6 months	+.28	+.03	+.30
112	Stabilize trust fund ratio	...	...	...
113	Eliminate "windfall" benefits	+.04	+.00	+.04
114	Raise delayed retirement credits	−.10	...	−.10
121	Tax one-half of benefits	+.56	+.05	+.61
123	Accelerate tax rate increase	+.03	...	+.03
124	Increase tax rate on self-employment	+.17	+.02	+.19
124	Adjust self-employment income	−.02	−.00	−.03
126	Change DI rate allocation	+.81	−.81	...
131	Continue benefits on remarriage	−.00	−.00	−.00
132	Pay divorced spouse of nonretired	−.01	−.00	−.01
133	Modify indexing of survivor's benefits	−.05	...	−.05
134	Raise disabled widow's benefits	−.01	...	−.01
151	Modify military credits financing	+.01	+.00	+.01
152	Credit unnegotiated checks	+.00	+.00	+.00
324	Tax certain salary reduction plans	+.03	+.00	+.03
337	Modify public pension offset	−.00	−.00	−.00
340	Suspend auxiliary benefits for certain aliens	+.00	+.00	+.00
348	Modify earnings test for those aged 65 and over [2]	−.01	...	−.01
	All other provisions of titles I and III	−.00	−.00	−.00
	Subtotal for the effect of the above provisions [3]	+2.07	−.68	+1.38
	Remaining deficit after the above provisions	−.85	+.15	−.71
	Additional change relating to long-term financing (title II of the amendments): [4]			
	Raise normal retirement age to 67	+.83	−.12	+.71
	Total effect of all of the provisions [5]	+2.89	−.80	+2.09
	After the amendments:			
	Actuarial balance	−.03	+.03	−.00
	Average income rate	11.47	1.42	12.89
	Average cost rate	11.50	1.39	12.89

[1] The values for each of the individual provisions listed from title I and title III represent the effect over present law and do not take into account interaction with other provisions with the exception of section 348.

[2] Estimates for modifying the earnings test take into account interaction with section 114, which raises delayed retirement credits.

[3] The values in the subtotal for all provisions included in title I and title III take into account the estimated interactions among these provisions.

[4] The values for each of the provisions of title II take into account interaction with the provisions included in title I and title III.

[5] The values for the total effect of the amendments take into account interactions among all of the provisions.

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

Law 98-21 and under prior law. As shown in the table, the long-range average OASDI cost rate is projected at 12.89 percent of taxable payroll, down by 1.49 percent of taxable payroll from the level projected before the amendments. The long-range average OASDI income rate (here defined as the OASDI combined employee-employer tax rate plus the value of revenues from the taxation of benefits expressed as a percentage of taxable payroll) is now projected at 12.89 percent of taxable payroll, up by 0.60 percent of taxable payroll from the level projected before enactment of Public Law 98-21.

The concept of actuarial balance must be used with caution. The use of a single measure to describe the system over a period of many years may mask adverse patterns within that period or problems that emerge soon thereafter. The addition or deletion of a few years to the time period could change a surplus into a deficit or vice versa. In addition, while early deficits followed by later surpluses could result in a positive actuarial balance, the trust fund could be depleted before the annual surpluses occur. Conversely, while early surpluses followed by later deficits could result in a positive actuarial balance, the trust fund that would be built up in the early years could eventually be depleted at some point beyond the end of the 75-year projection period, leaving the program in the situation of being unable to pay benefits at that time. Thus, it is important to note the year-by-year patterns of income and outgo.

Medicare

Hospital Insurance. As shown in table 6, Public Law 98-21 is also expected to have a favorable effect on the

Table 5.—Estimated long-range OASDI annual cost rate, income rate, and actuarial balance under the OASDI program as amended by Public Law 98-21

[Percent of taxable payroll]

Year	Cost rate			Income rate			Actuarial balance [1]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1983	10.74	1.26	12.00	[2] 10.83	[2] 1.42	[2] 12.25	+0.09	+0.17	+0.26
1984	10.24	1.13	11.37	10.58	1.02	11.59	+.33	-.11	+.22
1985	10.25	1.08	11.34	10.59	1.02	11.61	+.33	-.06	+.27
1986	10.34	1.06	11.40	10.61	1.02	11.63	+.26	-.04	+.22
1987	10.32	1.03	11.35	10.62	1.02	11.65	+.30	-.01	+.29
1988	10.32	1.02	11.34	11.30	1.08	12.39	+.98	+.07	+1.05
1989	10.28	1.00	11.28	11.33	1.09	12.41	+1.05	+.08	+1.13
1990	10.29	1.00	11.29	11.49	1.23	12.72	+1.21	+.23	+1.44
1991	10.23	1.00	11.23	11.52	1.23	12.75	+1.29	+.23	+1.52
1992	10.15	1.00	11.16	11.55	1.23	12.79	+1.40	+.23	+1.63
1993	10.02	1.00	11.02	11.56	1.24	12.80	+1.54	+.24	+1.78
1994	9.89	.99	10.86	11.57	1.24	12.80	+1.70	+.25	+1.94
1995	9.72	.98	10.80	11.57	1.24	12.80	+1.85	+.25	+2.10
1996	9.55	.98	10.53	11.56	1.24	12.80	+2.01	+.26	+2.27
1997	9.32	.97	10.36	11.56	1.24	12.80	+2.17	+.27	+2.43
1998	9.27	.99	10.26	11.56	1.24	12.80	+2.29	+.25	+2.54
1999	9.15	1.01	10.16	11.56	1.24	12.79	+2.40	+.23	+2.63
2000	9.04	1.03	10.07	11.33	1.46	12.79	+2.29	+.43	+2.72
2001	8.93	1.06	10.00	11.33	1.46	12.79	+2.39	+.40	+2.78
2002	8.87	1.10	9.97	11.33	1.46	12.79	+2.46	+.36	+2.83
2003	8.80	1.14	9.94	11.33	1.46	12.79	+2.53	+.32	+2.86
2004	8.75	1.18	9.93	11.33	1.47	12.80	+2.58	+.29	+2.87
2005	8.72	1.22	9.93	11.33	1.47	12.80	+2.61	+.25	+2.86
2006	8.71	1.26	9.97	11.33	1.47	12.80	+2.62	+.21	+2.84
2007	8.73	1.29	10.02	11.34	1.47	12.81	+2.60	+.18	+2.78
2010	8.95	1.40	10.35	11.35	1.48	12.83	+2.40	+.08	+2.48
2015	9.95	1.51	11.46	11.40	1.48	12.89	+1.45	-.03	+1.43
2020	11.25	1.58	12.83	11.47	1.49	12.96	+.22	-.10	+.13
2025	12.44	1.64	14.08	11.54	1.49	13.03	-.90	-.15	-1.03
2030	13.27	1.57	14.84	11.59	1.49	13.09	-1.68	-.08	-1.75
2035	13.68	1.53	15.22	11.63	1.49	13.12	-2.05	-.04	-2.10
2040	13.65	1.55	15.20	11.65	1.49	13.14	-2.00	-.06	-2.06
2045	13.61	1.58	15.19	11.66	1.50	13.16	-1.95	-.09	-2.03
2050	13.69	1.58	15.27	11.67	1.50	13.16	-2.03	-.08	-2.10
2055	13.82	1.54	15.39	11.67	1.50	13.17	-2.15	-.07	-2.22
2060	13.88	1.55	15.43	11.68	1.50	13.17	-2.20	-.06	-2.26
25-year averages:									
1983-2007	9.63	1.07	10.70	11.28	1.27	12.55	+1.65	+.20	+1.85
2008-32	11.17	1.54	12.71	11.47	1.49	12.93	+.30	+.05	+.25
2033-57	13.69	1.56	15.25	11.66	1.50	13.15	-2.63	-.07	-2.10
75-year average:									
1983-2057	11.50	1.39	12.89	11.47	1.42	12.89	-.03	+.03	-.00

[1] A positive balance indicates a surplus; a negative balance indicates a deficit.
[2] In 1983 only, income rates include lump-sum reimbursement for costs attributable to wage credits for military service performed before 1957.

Note: The above estimates are based on the 1983 Alternative II-B assumptions.

HI program in terms of increased revenues and/or reduced expenditures of some $33.6 billion over the period 1983-89 under the 1983 Alternative II-B assumptions. Moreover, the prospective payment provisions of Public Law 98-21 have made the outlays of the Hospital Insurance program potentially less vulnerable to excessive rates of growth in hospital care costs by providing the Secretary of Health and Human Services with some discretion over the level of payments to hospitals. The projected operations of the HI trust fund over the period 1982-92 under both Alternative II-B and Alternative III assumptions are shown in tables 2 and 3. As the tables show, the projected reductions in HI expenditures and increases in HI revenues, together with the repayment to the HI trust fund of the amounts borrowed by OASI, would not be sufficient to prevent the depletion of the HI trust fund in 1990 (1988 under the less favorable Alternative III assumptions). (In fact, under the Alternative III assumptions, depletion would occur in 1987 were it not for the fact that repayment of the interfund loans made previously to the OASI trust fund can be made in 1987, rather than waiting until 1988-89 as permitted under Public Law 98-21.)

Specifically, the Hospital Insurance trust fund bal-

Table 6.—Estimated changes in HI tax income, general fund transfers, or benefit outgo, under Public Law 98-21, based on 1983 Alternative II-B assumptions

[In billions]

Provision	Calendar year							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Total for HI changes	$3.3	$0.8	$1.9	$4.1	$5.9	$7.8	$9.8	$33.6
Provide for prospective hospital reimbursement [1]	...	...	.2	2.0	3.6	5.2	7.0	18.0
Delay single reimbursement rate for nursing facilities	(2)	(2)	...	...	...	...	...	(2)
Reduce allowable return on equity	(3)	.1	.1	.1	.1	.1	.2	.7
Increase tax rate on covered self-employment earnings	...	.4	1.3	1.5	1.6	1.7	1.8	8.3
Cover all Federal elected officials and political appointees	...	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cover all nonprofit employees	...	.3	.4	.5	.5	.6	.7	3.0
Prohibit State and local government terminations	...	(4)	.1	.1	.1	.2	.3	.8
Accelerate collection of State and local taxes	...	.2	(4)	(4)	(4)	(4)	(4)	.2
Modify general fund reimbursement methods for military service credits	3.3	−.1	−.1	−.1	−.1	−.1	−.1	2.5

[1] Savings attributable to prospective payments were computed as the additional savings that would be generated in fiscal year 1986 and later by eliminating the October 1985 sunset provision on the hospital rate-of-increase limits of section 101(b) of the Tax Equity and Fiscal Responsibility Act. The prospective payment legislation as passed by Congress does not mandate a system that would necessarily generate this level of savings. Instead, the level of prospective payment rates is left to the discretion of the Secretary of HHS.

[2] Additional benefits of less than $50 million.

[3] Reduction in provider reimbursement of less than $50 million.

[4] Net additional tax income of less than $50 million.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

ance at the beginning of 1982 was 52 percent of the expenditures in 1982. Almost entirely because of the exclusion of the $12.4 billion transferred from the HI trust fund to the OASI trust fund in 1982 under the interfund borrowing authority, the trust fund ratio fell to only 20 percent by the beginning of 1983. The fund is expected to rise to 25 percent of annual expenditures by the beginning of 1984, as a result of the provision in Public Law 98-21 that changes the financing basis of noncontributory wage credits for military service under the HI program as well as the OASDI program.

Based on the Alternative II-B assumptions (table 2), the trust fund ratio falls to about 17 percent by the beginning of 1985. After 1985, the fund stops declining and remains at about the same relative level through 1988, largely because of the assumed repayment during 1986-88 of the $12.1 billion outstanding balance of the $12.4 billion loaned from HI to OASI in 1982. (About $0.3 billion of the loan is assumed to have been repaid in 1984.) After the assumed completion of the loan repayment in 1988, the HI trust fund is estimated to decline rapidly and to become depleted in 1990, based on the Alternative II-B assumptions.

On the basis of the Alternative III assumptions (table 3), the fund declines steadily through 1986, then rises in 1987 because of the assumed complete repayment of the $12.4 billion loan in 1987. The fund is then depleted in 1988, based on Alternative III assumptions.

Although the 1983 amendments extended the authority for interfund borrowing through 1987, no interfund loans would be required through that year under either set of assumptions. The estimated depletion of the HI trust fund occurs after the expiration of the interfund borrowing authority and after the assumed completion of repayment of the loans made from the HI trust fund in 1982.

Long-range estimates for the HI program as amended by Public Law 98-21 (table 7) show that, on the basis of the Alternative II-B assumptions, expenditures exceed income in each of the 25 years in the projection period. The average deficit over the 25-year period is 1.35 percent of taxable payroll under the amended program—a reduction of 0.78 percent of taxable payroll from the 2.13 percent average deficit under the program as in effect before the enactment of the 1983 amendments. Thus, the deficit of the HI program was reduced by more than one-third. However, the average long-range deficit of the HI program is still very high, representing one-third of the total long-range cost of the program.

Supplementary Medical Insurance. The Supplementary Medical Insurance (SMI) part of the Medicare program is financed on the basis of premiums paid by aged and disabled persons who are enrolled in the program and by contributions from the general revenues of the Treasury. Increases in the SMI premium (now $12.20 per month), are calculated annually on the basis of estimated increases in program costs for the aged and are timed to go into effect at the same time as the OASDI COLA. Under Public Law 98-21 the annual premium increase previously scheduled for July of each year is shifted forward to January. The amount of the increase will be promulgated in September of each year, beginning with 1983, to take effect the following January. The new premium amount will presumably be larger than the figure of $13.50 per month previously promulgated for July 1983 under the old law, because of the later time period being covered.

Table 7.—Estimated long-range HI annual cost rate, annual income rate, and actuarial balance under the Social Security program as amended by Public Law 98-21

[Percent of taxable payroll]

Year	Cost rate [1]	Income rate [2]	Difference [3]
1983	2.78	2.60	-0.18
1984	2.79	2.60	-.19
1985	2.89	2.70	-.19
1986	3.01	2.90	-.11
1987	3.14	2.90	-.24
1988	3.27	2.90	-.37
1989	3.42	2.90	-.52
1990	3.54	2.90	-.64
1991	3.67	2.90	-.77
1992	3.80	2.90	-.90
1993	3.92	2.90	-1.02
1994	4.06	2.90	-1.16
1995	4.20	2.90	-1.30
1996	4.34	2.90	-1.44
1997	4.46	2.90	-1.56
1998	4.60	2.90	-1.70
1999	4.71	2.90	-1.81
2000	4.83	2.90	-1.93
2001	4.96	2.90	-2.06
2002	5.10	2.90	-2.20
2003	5.30	2.90	-2.40
2004	5.39	2.90	-2.49
2005	5.55	2.90	-2.65
2006	5.73	2.90	-2.85
2007	5.91	2.90	-3.01
25-year average: 1983-2007	4.22	2.87	-1.35
Under old law: 1983-2007	5.00	2.87	-2.13

[1] Defined as the annual expenditures of the program, expressed as a percentage of the effective taxable payroll. It does not include additional amounts that would be needed to maintain the trust fund balance at an adequate level.

[2] The combined employee-employer tax rate. The provision for taxation of benefits—which is an additional source of income for the OASDI program—does not apply to the HI program.

[3] A positive figure indicates a surplus; a negative balance indicates a deficit.

Note: The above estimates are based on the 1983 Alternative II-B assumptions.

Appendix A:

Provisions of the Administration's Social Security Reform Proposal Announced May 12, 1981 *

(1) Tax and credit all sick pay during the first 6 months of illness.

(2) Change the closing point for calculating average indexed monthly earnings for benefit computation purposes from age 62 to age 65.

(3) Increase the dollar bend-points in the primary insurance amount (PIA) benefit formula for each year during the period 1982-87 by 50 percent of the increase in the average annual wage, instead of by 100 percent.

(4) Reduce the benefit rate for early retirement benefits at age 62 from the present 80 percent of the PIA to 55 percent (with proportionate changes for other ages at retirement between 62 and 65), effective for persons attaining age 62 after 1981.

(5) Eliminate benefits for children of retired workers while the workers are aged 62-64.

(6) Provide that the maximum family benefit provision currently applicable to disability beneficiaries (as a result of the 1980 amendments) would also be applicable to retirement and survivor beneficiaries.

(7) Eliminate the windfall portion of benefits for persons with pensions from noncovered employment by using a more proportionate PIA benefit formula, instead of the present heavily weighted one in such cases (specifically, by changing the first benefit factor from 90 percent to 32 percent, the same as the second benefit factor).

(8) Consider only medical factors in making determinations of disability for Social Security benefits (that is, do not consider nonmedical, vocational factors).

(9) Require that a person's disability be expected to last for at least 24 months, instead of only 12 months as under present law for the person to qualify for Social Security Disability Insurance benefits.

(10) Increase the waiting period for disability benefits from 5 months to 6 months (which was the original requirement until 1972).

(11) Increase the insured status requirements for Social Security Disability Insurance benefits from 20 to 30 quarters of coverage in the last 40-quarter period preceding disability (with a proportionate change for those disabled before age 31).

(12) Change the automatic cost-of-living benefit adjustments to a fiscal year basis by moving the date for the adjustment from June to September, beginning in 1982.

(13) Increase the annual exempt amount under the earnings test for persons aged 65 and over to $10,000 in 1983, $15,000 in 1984, and $20,000 in 1985; then, in 1986, eliminate this test for those persons aged 65 and over.

As to financing provisions, the proposal would institute interfund borrowing between the OASI and DI trust funds and from the HI trust fund and would lower the scheduled OASDI employer and employee tax rates by 0.1 percent each in 1985-89, by 1.2 percent each in 1990-2019, and by 0.1 percent each in 2020 and after (with corresponding proportionate reductions for the self-employed rates). Also, automatic tax reduction procedures would be provided when the ratio of trust fund assets to annual expenditures exceeded 55 percent. After such a ratio had been achieved, tax increases would occur when the fund ratio dropped below 50 percent, so that the ratio would stay at a relatively constant level.

* Based on **HHS Fact Sheet**, May 12, 1981.

Appendix B:

Excerpt from Executive Order 12335 Establishing the National Commission on Social Security Reform, December 16, 1981 †

Section 1. Establishment. (a) There is established the National Commission on Social Security Reform. The Commission shall be composed of 15 members appointed or designated by the President and selected as follows:

(1) Five members selected by the President from among officers or employees of the Executive Branch, private citizens of the United States, or both. Not more than three of the members selected by the President shall be members of the same political party;

(2) Five members selected by the Majority Leader of the Senate from among members of the Senate, private citizens of the United States, or both. Not more than three of the members selected by the Majority Leader shall be members of the same political party;

(3) Five members selected by the Speaker of the House of Representatives from among members of the House, private citizens of the United States, or both. Not more than three of the members selected by the Speaker shall be members of the same political party.

(b) The President shall designate a Chairman from among the members of the Commission.

Section 2. Functions. (a) The Commission shall review relevant analyses of the current and long-term financial condition of the Social Security trust funds; identify problems that may threaten the long-term solvency of such funds, analyze potential solutions to such problems that will both assure the financial integrity of the Social Security system and the provision of appropriate benefits; and provide appropriate recommendations to the Secretary of Health and Human Services, the President, and the Congress.

(b) The Commission shall make its report to the President by December 31, 1982.

† Source: **Weekly Compilation of Presidential Documents**. Monday, December 21, 1981, vol. 17, No. 51, page 1376.

Appendix C:

Membership of the National Commission on Social Security Reform

Named by the President to the Commission were:

Alan Greenspan (chairman), former chairman of the Council of Economic Advisors in the Ford Administration.

Robert A. Beck, chairman of the board, Prudential Insurance Company of America.

Mary Falvey Fuller, vice president for finance, Shaklee Corporation, San Francisco; member of the 1979 Advisory Council on Social Security.

Alexander B. Trowbridge, president, National Association of Manufacturers.

Joe D. Waggonner, Jr., consultant, Bossier Bank & Trust Company, Plain Dealing, La.; former Democratic Representative from Louisiana.

The following members were named by Speaker Thomas P. O'Neill, Jr., of the U.S. House of Representatives in consultation with House Minority Leader Robert H. Michel:

Representative Bill Archer (R., Tex.), ranking minority member, Subcommittee on Social Security, Committee on Ways and Means.

Robert M. Ball, former Commissioner of Social Security.

Representative Barber B. Conable, Jr. (R., N.Y.), ranking minority member, Committee on Ways and Means.

Martha Keys, former Democratic Representative from Kansas.

Representative Claude Pepper (D., Fla.), chairman, House Select Committee on Aging.

Named by Senate Majority Leader Howard H. Baker, Jr., in consultation with Senate Minority Leader Robert C. Byrd were:

Senator William L. Armstrong (R., Colo.), chairman, Social Security Subcommittee, Senate Finance Committee.

Senator Robert J. Dole (R., Kans.), chairman of the Senate Finance Committee.

Senator John Heinz (R., Pa.), member of the Senate Finance Committee.

Lane Kirkland, president of the AFL-CIO.

Senator Daniel Patrick Moynihan (D., N.Y.), ranking minority member, Social Security Subcommittee, Senate Finance Committee.

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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ACTUARIAL COST ESTIMATES OF THE EFFECTS OF PUBLIC LAW 98-21 ON THE OLD-AGE, SURVIVORS AND DISABILITY INSURANCE AND HOSPITAL INSURANCE PROGRAMS

SEPTEMBER 8, 1983

Prepared for the use of the Committee on Ways and Means by its staff

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ACTUARIAL COST ESTIMATES OF THE EFFECTS OF PUBLIC LAW 98-21 ON THE OLD-AGE, SURVIVORS AND DISABILITY INSURANCE AND HOSPITAL INSURANCE PROGRAMS

I. Introduction

This report presents actuarial cost estimates of the effects of the Social Security Amendments of 1983 (Public Law 98-21) on the future experience of the old-age, survivors and disability insurance (OASDI) program and the hospital insurance (HI) program. The enactment of Public Law 98-21 was the culmination of legislative deliberations which began soon after the National Commission on Social Security Reform reported its findings and recommendations to the President on January 20, 1983.

The recommendations of the National Commission formed the basis of two similar bills that were introduced in the Congress—H.R. 1900 in the House of Representatives and S. 1 in the Senate. The House passed H.R. 1900 on March 9. An amended version of H.R. 1900 was passed by the Senate on March 23. A House-Senate Conference Committee reached agreement on the final provisions of the bill on March 24. The House accepted the conference agreement late in the evening of March 24, and the Senate accepted the agreement shortly thereafter, in the early morning hours of March 25. The President signed into law the Social Security Amendments of 1983 on April 20, 1983.

1. Time periods covered by the estimates

In general, the estimates in this report are classified as short- and long-range estimates. Estimates for the 10-year period 1983-92 are considered to be short-range estimates. Estimates for the 75-year period 1983-2057 are considered to be long-range estimates for the OASDI program. Estimates for the 25-year period 1983-2007 are considered to be long-range estimates for the HI program.

2. Form of the estimates

Short-range estimates are presented in terms of current dollar amounts. For example, such items as income, expenditures and trust fund balances are all shown in those terms over the first 10 years. Trust fund balances at the beginning of each calendar year are also expressed as percentages of expenditures during that year.

Long-range estimates are shown as percentages of taxable payroll rather than in dollar amounts. The taxable payroll consists of the total earnings which are subject to Social Security taxes, adjusted to reflect the lower effective tax rates (in comparison with

Note: The estimates presented in this report were prepared before the enactment of Public Law 98-21 and therefore do not reflect revisions in estimated program costs that were made later.

the combined employee-employer rate) which apply to self-employment income (for years before 1984), tips and multiple-employer "excess wages." (Beginning in 1984, the tax rates that apply to self-employment income are scheduled to increase, under Public Law 98-21, to the combined employee-employer rate.) These adjustments are made so that the expenditures (or items of income other than payroll taxes), when expressed as a percentage of taxable payroll, are directly comparable to the combined employee-employer tax rate in the law. The sum of the combined tax rate and the income from taxation of benefits (described later), expressed as a percentage of taxable payroll, will be termed the "total income rate", or simply the "income rate." The term "cost rate" refers to the expenditures expressed as a percentage of taxable payroll. Estimates of trust fund balances, expressed as percentages of annual expenditures, are also made for the long-range period.

3. Assumptions underlying the estimates

This report presents estimates for the short- and long-range periods on the basis of an intermediate set of assumptions (alternative II-B). Short-range estimates based on a set of pessimistic assumptions (alternative III) are also shown in this report. Both alternatives II-B and III, which are summarized in table 1, were developed in January 1983 as preliminary assumptions for the 1983 Annual Reports of the Boards of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds and the Federal Hospital Insurance Trust Fund. These preliminary assumptions were also used by the Congress in the legislative development of the Social Security Amendments of 1983.

It should be recognized that future economic and demographic experience cannot be predicted with a high degree of certainty. While alternative II-B is intended to be a realistic, intermediate set of assumptions, and alternative III is intended to be a pessimistic set, the experience that actually occurs in the future could be more favorable than the alternative II-B assumptions or more unfavorable than the pessimistic alternative III assumptions. The estimates presented in this report should therefore be used with caution.

4. Financial soundness

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance, in absolute terms and as a percentage of the annual expenditures, and whether the balance is growing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total income rate and the cost rate. If the average income rate is between 95 percent and 105 percent of the average cost rate, over the 75-year long-range projection period, the system is said to be in close actuarial balance.

After the following summary of the various provisions of Public Law 98-21, this report presents short- and long-range estimates for the OASDI and HI programs as modified by the amendments.

II. Summary of Various Provisions of Public Law 98-21

The major provisions of Public Law 98-21 are as follows:

1. Coverage of newly hired Federal employees

Compulsory coverage under the OASDI program will be provided for Federal civilian employees of the executive, legislative and judicial branches (military employees have been covered since 1957) hired after 1983. (Beginning January 1, 1983, coverage under the HI program had already been provided for all Federal employees, including those hired before 1983, under the Tax Equity and Fiscal Responsibility Act of 1982, Public Law 97-248, which was enacted into law on September 3, 1982.) Persons in Federal civilian employment before 1984 are generally not affected by this provision unless they leave Federal service for more than 365 consecutive days (beginning before or after January 1, 1984) and are rehired by the Federal Government after 1983. Compulsory coverage will be provided for current employees of the legislative branch who are not participating in the Civil Service Retirement System on December 31, 1983; for all Members of Congress; for the President and the Vice President; for Federal judges; and for most high-level political appointees in the executive branch. Compensation received by retired federal judges for periods in which judicial duties are performed will also be considered wages under Social Security for both contributions and retirement test purposes.

2. Coverage of employees of nonprofit organizations

The earnings of all current and future employees of private tax-exempt nonprofit organizations will be covered after 1983. Under prior law, work performed for such organizations was excluded from coverage unless the organization waived its exemption from Social Security taxation. Employees affected by this provision will be deemed to be fully insured for Social Security benefits if the following conditions are met:

(a) On January 1, 1984, the employee is age 55 or older and is employed by a nonprofit organization to which coverage is extended solely as a resulted of Public Law 98-21, and

(b) The employee acquires after December 31, 1983, a specified number of quarters of coverage which depends on the employee's age, as follows:

Age on Jan. 1, 1984:	*Quarters of coverage required*
60 or over	6
59	8
58	12
57	16
55 or 56	20

In addition, the new law provides that Social Security coverage for employees of nonprofit organizations may not be terminated on or after March 31, 1983.

3. Prohibited termination of coverage of State and local government employees

The new law prohibits States from terminating coverage of State and local government entities if the termination had not become effective before the date of enactment (April 20, 1983).

4. Six-month delay in cost-of-living adjustment

The effective month for automatic cost-of-living increases in OASDI benefits is changed from June to December of each year, beginning in 1983. The period over which the increase in the Consumer Price Index (CPI) is measured to determine the benefit increase for December 1983 is unchanged from previous law (the period is from the first quarter of 1982 through the first quarter of 1983). However, the benefit increases in 1984 and later years will be based on the CPI increase from the third quarter of the previous year through the third quarter of the year in which the benefit increase becomes effective.

5. Modification in cost-of-living increases during periods of low trust fund balances (stabilizer provision)

Beginning with the December 1984 benefit increases, future automatic increases in benefits will be limited, under the stabilizer provision, to the lower of the increases in wages or prices if the combined assets of the OASI and DI Trust Funds, as a percentage of estimated annual expenditures, fall below a specified level. This specified level is 15 percent for benefit increases in 1984 through 1988, and 20 percent for benefit increases in 1989 and later. If assets fall below that level, the automatic benefit increase will be the smaller of (1) the increase in prices as measured by the CPI (the same benefit increase that would apply if the level of trust fund assets were not below the specified levels of 15 percent or 20 percent) or (2) the increase in average wages in the previous year as compared with the second preceding year—which is used for purposes of adjustments in the contribution and benefit base and in other wage-indexed program amounts.

The new law also provides for "catch-up" benefit increases for those beneficiaries whose benefit increases were reduced as a result of this provision. Specifically, when the assets of the combined OASI and DI Trust Funds exceed 32 percent of estimated annual expenditures, additional increases in benefits are provided, to the extent that funds are available above the 32-percent trust fund level, until benefits are increased to the level at which they would have been if all increases had been based on CPI increases.

The assumed benefit increases under the old law and the new law are shown in table 2.

6. "Normalized" tax transfers

The new law provides that the estimated amount of Social Security taxes to be received each month shall be transferred from the general fund of the Treasury to the trust funds on the first day of the month, instead of on a daily basis as taxes are collected. This provision, which essentially allows short-term loans by the general fund to the trust funds, requires that the trust funds pay interest

on such advance tax transfers. The net effect is to make funds available when needed to pay benefits, which are normally paid on the third of each month.

7. Interfund borrowing reinstatement

The new law reinstates the interfund borrowing authority that expired at the end of 1982 and extends it through the end of 1987. The new law also adds certain requirements as to when loans can be made, when they must be repaid, and when interest must be paid.

8. Elimination of windfall benefits for persons receiving pensions from noncovered employment

The computation of OASDI benefits will be modified for most workers (with certain exceptions) who first become eligible after 1985 for both a pension based wholly or in part on noncovered employment and a retired- or disabled-worker's benefit under Social Security. The modification replaces the 90-percent factor generally applied to average indexed earnings in the first band of the benefit formula by a factor of 40 percent, after a phase-in period of 5 years (1986–90).

As an exception, the benefits for workers with 30 or more years of coverage (as defined for purposes of the special minimum benefit under the Social Security Act) will not be affected. For workers with 26, 27, 28, or 29 years of coverage, instead of 40 percent, the first factor of the benefit formula will be 50, 60, 70, or 80 percent, respectively.

The reduction in the Social Security benefit which results from this provision may not exceed one-half of the pro-rata portion of the pension which is attributable to noncovered employment after 1956.

Certain groups are exempted from this effects of this provision, as follows:

(a) workers who are compulsorily covered on January 1, 1984, as a result of the new law. These include a small number of current Federal employees and all nonprofit employees covered solely because of the new law except those whose past employment for a nonprofit organization had been covered, but whose employment for that organization was not covered on December 31, 1983.

(b) employees whose only pension based on noncovered employment is a railroad retirement pension.

9. Increase in normal retirement age

The normal retirement age (i.e., the earliest age at which unreduced retirement benefits can be received) will be gradually increased from age 65 to age 67. For persons attaining age 62 in 2000, the normal retirement age will be increased by 2 months—to age 65 and 2 months. In each succeeding year, the normal retirement age will be increased by 2 additional months until it reaches age 66 for persons attaining age 62 in 2005. The normal retirement age will then remain at age 66 for persons attaining age 62 through 2016. Beginning with persons attaining age 62 in 2017, the normal retirement age will again increase by 2 months each year, until it reaches age 67 for persons attaining age 62 in 2022 and later.

The minimum age of eligibility for reduced benefits will remain unchanged at age 62 (age 60 for widows and widowers). However, when the normal retirement age begins to increase, there will be corresponding increases in the amount of reduction for early retirement. The amount of reduction will be 5/9 of 1 percent for each of the first 36 months of early retirement (as under present law), and 5/12 of 1 percent for each month in excess of 36. Thus, for persons attaining age 62 during 2005–2016, for whom the normal retirement age will be 66, the reduced benefit payable at age 62 will be 75 percent of the PIA. For persons attaining age 62 in 2022 and later, for whom the normal retirement age will be 67, the reduced benefit payable at age 62 will be 70 percent of the PIA. (See table 3.)

10. Increase in delayed retirement credits

Beginning with workers who attain age 65 in 1990, the increment for delaying retirement past the normal retirement age will increase by ½ of 1 percent every second year, from 3 percent per year of delayed retirement for workers attaining age 65 in 1982–89, until reaching 8 percent per year of delayed retirement for workers attaining normal retirement age (age 66) after 2008.

The normal retirement age and the delayed retirement credit for persons attaining age 62 in each year 1986 and later are shown in table 3. The percentages of PIA payable as benefits beginning at ages 62, 65, 66, 67 and 70 are also shown for each age cohort in this table. The percentage of PIA payable at the various ages shown in the table reflects the combined effects of both the scheduled increases in normal retirement age and the scheduled increases in delayed retirement credits.

11. Reduced withholding rate under the retirement test

Beginning in 1990, the benefit withholding rate under the retirement test will be reduced from $1 for each $2 of earnings over the annual exempt amount to $1 for each $3 of excess earnings, for beneficiaries who have reached the normal retirement age (age 65 in 1990–99). When the normal retirement age begins to increase in 2003, the age at which the reduced withholding rate will apply will also increase.

12. Taxation of Social Security benefits

Beginning in 1984, as much as one-half of OASDI benefits (and railroad retirement tier 1 benefits) will be included in taxable income for taxpayers with incomes above certain base amounts. The sum of a taxpayer's (1) adjusted gross income, (2) tax-free interest income and (3) one-half of OASDI benefits will be compared to a base amount of $25,000 for a single taxpayer, or $32,000 for a married couple filing a joint tax return. If the sum exceeds the base amount, the amount of benefits to be included in taxable income will be the lesser of:

(a) one-half of the excess of such sum over the base amount, or
(b) one-half of the amount of benefits received.

The revenue raised by this taxation of benefits will be automatically transferred to the OASDI Trust Funds.

The new law does not provide for indexing the base amounts of $25,000 and $32,000. These amounts are, therefore, scheduled to remain the same in all future years.

13. Changes in tax rate schedule

The OASDI tax-rate increase scheduled for 1985 is advanced to 1984, and part of the increase scheduled for 1990 is advanced to 1988. Both the OASDI and HI tax rates on self-employment income are increased by making them equal to the corresponding combined rates for employees and employers, beginning in 1984. The tax rates under the old law and the new law are shown in table 4.

For 1984 only, a tax credit of 0.3 percent of taxable wages (equal to the 1984 tax-rate increase for employees) will be allowed against the taxes paid by employees. Similarly, tax credits of 2.7 percent, 2.3 percent and 2.0 percent will be allowed against taxable self-employment income in 1984, 1985, and each year 1986–89, respectively.

Beginning in 1990, self-employed persons will be allowed to deduct from their net earnings from self-employment an amount equal to such income multiplied by one-half of the Social Security tax rate for the self-employed. The result will be multiplied by the entire tax rate for the self-employed, and that product will be the Social Security tax liability for the year (with the usual limitations imposed by the annual earnings base). Half of the Social Security tax liability will be deductible in computing Federal income taxes for the self-employed. The effect of this procedure will be to place self-employed persons in roughly the same position as employees in regard to their Social Security and Federal income taxes.

The allocation of the total OASDI tax rate between the OASDI and DI Trust Funds is also modified by the new law, as shown in table 5.

14. Acceleration of State and local tax collections

The new law requires that, after 1983, the Social Security taxes due on the wages of employees of State and local government entities be deposited semi-monthly, within 15 days after the end of each 15-day period, rather than 30 days after the end of each month, as under previous law.

15. Increase in benefits for certain surviving, divorced and disabled spouses

Four provisions of the new law will increase benefits payable to certain surviving, divorced and disabled spouses. Most of the affected beneficiaries, present and future, are women.

The first provision will allow the continuation of benefits for disabled and surviving divorced spouses who remarry after becoming eligible for benefits. This provision is effective for benefits payable after 1983.

The second provision will change the indexing procedures used to calculate deferred benefits for surviving spouses of workers who die before attaining age 62. Under present law, the earnings histories of such workers are indexed by wage increases to the second year preceding the year of death. Beginning with the year of death, benefits are indexed by increases in the CPI. The new law provides

for wage indexing through the year in which the worker would have reached age 60, or 2 years before the survivor's eligibility for benefits, if earlier, whenever such indexing produces a larger monthly benefit amount. This provision is effective for newly eligible survivors after 1984.

The third provision will provide entitlement to benefits, after 1984, for divorced spouses when the former spouse is not receiving benefits. Under previous law, the former spouse on whose earnings record the benefits were payable had to claim benefits before his or her divorced spouse could claim benefits. Also, under previous law, if the former spouse claimed benefits but continued to work, the divorced spouse could have benefits withheld because of the retirement earnings test. The new law essentially permits independent entitlement.

The fourth provision will increase the benefits, after 1983, for any person who is or ever was entitled to benefits before age 60 as a disabled widow or widower. Previous law required that the initial benefits of such persons would vary from 50 to 71.5 percent of the primary insurance amount for ages at entitlement ranging from 50 to 60. The new law will provide a 71.5-percent benefit rate for all such beneficiaries.

16. Modification to financing basis of noncontributory military service wage credits

The new law changes the financing basis of noncontributory military service wage credits under the Social Security Act. These deemed wage credits generally had been financed through reimbursements by the general fund of the Treasury for the additional benefit payments and administrative expenses attributable to such wage credits, with adjustments for interest.

Under the new law, the estimated present value of the additional past and future costs attributable to wage credits for military service before 1957, less the accumulated value of past reimbursements, was paid in a lump-sum transfer on May 20, 1983. For the deemed wage credits based on military service in 1957–83, a similar lump-sum transfer was made on the same date to reflect the differences, accumulated with interest, between what was actually paid in the past and what would have been paid if such deemed wage credits had been taxed at the combined employee-employer rate. For deemed wage credits based on military service after 1983, a transfer will be made on July 1 of each year in an amount equal to what would be paid if such deemed wages in the year were taxed at the combined employee-employer rate.

17. Reimbursements for unnegotiated checks

The new law will provide reimbursement to the Social Security trust funds for all past and future benefit checks that remain uncashed 6 months after being issued. Under previous law, the total amount for all checks issued was deducted from the trust funds, and such unnegotiated checks were never reimbursed. Lump-sum reimbursements for past uncashed checks will be made in 1983, subject to the appropriations process. Future reimbursements are also subject to the annual appropriations process.

18. Modification of public pension offset

The new law provides that any person becoming eligible after June 1983 for both a pension based on noncovered governmental employment and a Social Security benefit as a spouse or widow(er) will have that Social Security benefit reduced by two-thirds of the amount of the noncovered pension. Previous law provided for offset by the entire pension amount.

19. Taxation of contributions under certain salary reduction plans

The new law requires that employer contributions to salary reduction plans under Internal Revenue Code sections 401(k) and 403(b), and to certain nonqualified deferred compensation arrangements, will be taxable for Social Security purposes. The income-tax treatment of these contributions will not be affected. The provision is effective for contributions made after 1983.

20. Suspension of benefits to certain nonresident aliens

The new law will suspend benefit payments to any nonresident alien receiving benefits or applying to receive them as an auxiliary or survivor beneficiary of an insured worker (whether or not the worker is a U.S. citizen), whenever such alien has been outside the United States for six consecutive calendar months. Alien auxiliary or survivor beneficiaries who can prove that they had lived in the United States for a total of at least 5 years during which their relationship with the insured worker was the same as the one on which eligibility for benefits is based would be exempt from this provision. The provision is effective with respect to any individual who becomes eligible for benefits after 1984.

21. Expanded use of death certificates

The new law provides authority for the Secretary of Health and Human Services to contract with the States for death certificate information. This information will be used to prevent the erroneous payment of benefits to deceased individuals.

22. Other changes

The new law includes many other provisions which do not have a significant impact from an actuarial cost standpoint on the OASDI program. Some of these provisions made minor or technical modifications to the Social Security Act, some require studies to be performed, and some affect such a small number of beneficiaries that the cost effect is negligible.

III. Short-Range Cost Estimates for the OASDI Program

The estimates in this section cover the first 10 years of projected operations of the OASI and DI Trust Funds, under the program as amended by Public Law 98-21. The estimates of trust fund operations are shown in terms of absolute current dollars. The trust fund balances at the beginning of each year are also shown, expressed as a percentage of expenditures during the year. These percentages will be referred to as trust fund ratios, in this report.

1. OASDI income and expenditures during the next 10 years

Tables 6 and 7 show the estimated operations of the OASI and DI Trust Funds under the amended program during calendar years 1983–92, on the basis of the intermediate alternative II–B assumptions and the more pessimistic alternative III assumptions, respectively, as well as actual experience in calendar year 1982.

Based on the alternative II–B assumptions, the estimates shown in table 6 indicate that the combined trust funds will grow slowly during the first 5 years of the projection period, 1983–87. Beginning in 1988, when the second accelerated increase in the tax rates occurs, the trust funds are expected to grow more rapidly throughout the remainder of the 10-year projection period, with the trust fund ratio rising from 24 percent at the beginning of 1988 to 64 percent by the beginning of 1992.

For the combined funds, the trust fund ratio is estimated to increase from 15 percent at the beginning of 1983 to 22 percent at the beginning of 1984, on the basis of the alternative II–B assumptions. This increase includes, in the balance at the beginning of 1984, the tax receipts for January 1984 which are to be transferred on the first day of the year under the provision for normalized crediting of taxes to the trust funds. The advance tax transfers for January of each year 1984 and later are reflected in the trust fund ratios for OASI and DI because the transfers will be available for the payment of OASDI benefits which are due at the beginning of each month. Thus, this provision increases the projected trust fund ratios by about 7–8 percentage points, as compared with those under previous law.

As in the case of the combined trust funds, the OASI Trust Fund is expected to grow slowly during the first 5 years, under the alternative II–B assumptions. More rapid growth is expected during the second 5 years, with the trust fund ratio rising from 23 percent to 59 percent by the beginning of 1992. The assets of the DI Trust Fund are expected to remain nearly constant, in absolute current dollars, during the first 5 years, with rapid growth expected during the second 5 years.

Tables 6 and 7 show the amounts transferred to the OASI Trust Fund from the HI and DI Trust Funds in 1982 under the interfund borrowing authority provided by Public Law 97–123, which was signed into law on December 29, 1981. The amounts that are assumed to be repaid in each future year, in accordance with provisions in Public Law 98–21, are also shown. It should be noted that the outstanding loan amounts are included in the OASI Trust Fund balances (and reflected in the OASI Trust Fund ratios), while the amounts of outstanding loans from the DI Trust Fund are excluded from the DI Trust Fund balance (with such exclusion reflected in the DI Trust Fund ratios).

The estimates based on the alternative III assumptions (shown in table 7) indicate an overall decline in the OASI Trust Fund, and in the combined OASI and DI Trust Funds, during the first 5 years, with the trust fund ratio falling to 14 percent for the OASI Trust Fund, and 16 percent for the combined funds, by the beginning of 1988. Both trust funds are expected to grow rapidly during the second 5 years, under alternative III, with the OASI Trust Fund

ratio reaching 40 percent, and the combined trust fund ratio reaching 45 percent, by the beginning of 1992.

Under the alternative III assumptions, the benefit increases for December 1984 and December 1985 would be limited, under the stabilizer provision, to the increases in average wages in 1983 and 1984, respectively, because the OASDI fund ratio (as defined in the stabilizer provision) is estimated to be less than 15 percent at the beginning of each year 1984 and 1985. By the beginning of 1991, the OASDI fund ratio is estimated to exceed 32 percent and the "catch-up" provision would become effective with the benefit increase for December 1991. Those beneficiaries who received reduced benefit increases in 1984 and 1985 (or in 1985 only) would have their benefit levels completely restored by the December 1991 increase.

Although the estimated trust fund ratios are relatively low during the first 5 years of the projection period, the estimates indicate that assets will be sufficient to ensure the timely payment of benefits, on the basis of both sets of assumptions. However, it should be noted that such timely payment cannot be guaranteed under all circumstances. For example, financial problems could again occur in the event of a sharp economic downturn before 1988.

2. Changes in OASDI income and outgo in calendar years 1983–89

The changes in tax income, general fund transfers, and benefit payments under the OASDI program in 1983–89, as a result of the provisions in Public Law 98–21, are shown in tables 8 and 9, by provision. The estimates are based on the alternative II–B assumptions and the alternative III assumptions, respectively.

IV. Long-Range Cost Estimates for the OASDI Program

The estimated effects of the various provisions in Public Law 98–21 on the long-range actuarial balance of the OASDI program are shown in table 10. It may be observed from this table that the long-range OASDI actuarial deficit of 2.09 percent of taxable payroll, that was estimated under the old law, is eliminated by the 1983 amendments. The small deficit of 0.03 percent that remains in the OASI program is exactly offset by the small surplus that remains in the DI program. However, each program is well within the bounds of close actuarial balance.

For the OASDI program as modified by the 1983 amendments, table 11 shows a comparison of the estimated cost rate with the estimated income rate for selected years from 1983 through 2060. As indicated previously, the income rate is the sum of the scheduled tax rate and the income from taxation of benefits expressed as a percentage of taxable payroll. The scheduled tax rates for employees and employers, combined, are:

[In percent]

Calendar year	OASI	DI	Total
1983	9.55	1.25	10.80
1984-85	10.40	1.00	11.40
1986-87	10.40	1.00	11.40
1988-89	11.06	1.06	12.12
1990-99	11.20	1.20	12.40
2000 and later	10.98	1.42	12.40

Table 11 shows that, on the basis of the 1983 alternative II-B assumptions, estimated income will exceed the estimated cost of the program through the second decade of the next century. After the year 2020, income from scheduled payroll taxes and from the taxation of benefits will not be large enough to cover estimated annual costs, although the accumulated trust fund balance will be sufficient to allow the program to continue operating satisfactorily for many years. The average actuarial balances are estimated to be a surplus of 1.85 percent of taxable payroll for the first 25 years of the long-range projection period and a surplus of 0.25 percent for the second 25 years. These surpluses are exactly offset by an estimated deficit of 2.10 percent of taxable payroll in the third 25-year period of the 75-year projection period.

Table 12 shows the estimates of OASI and DI Trust Fund ratios under the amended program for each year from 1981 through 2060. As a percent of annual expenditures, the combined assets of the OASI and DI Trust Funds are estimated to grow until the latter part of the second decade in the next century, reaching levels of about 540 percent of annual expenditures. Thereafter, the combined trust fund ratios decline steadily to less than 50 percent by 2060.

The trust fund ratio for OASI exhibits a similar pattern—increasing to about 565 percent in the second decade of the next century and declining thereafter to less than 25 percent by 2060. The DI Trust Fund increases to about 400 percent of annual expenditures by the first decade of the next century and declines to about 220 percent by the year 2060.

V. Cost Estimates for the HI Program

The estimates in this section cover the operations of the HI Trust Fund over the short range (1983-92), as well as the actuarial status of the program over the long range (the 25 years 1983-2007), under the program as amended by Public Law 98-21.

1. Short-range estimates

The estimated operations of the HI Trust Fund during calendar years 1983-92 under the amended program are shown in tables 13 and 14 on the basis of alternatives II-B and III, respectively, along with actual experience in calendar year 1982. The trust fund balance at the beginning of 1982 was 52 percent of the expenditures in 1982. Almost entirely because of the exclusion of the $12.4 billion transferred from the HI Trust Fund to the OASI Trust Fund in 1982, under the interfund borrowing authority, the trust fund ratio fell to only 20 percent by the beginning of 1983. The fund is expect-

ed to rise to 25 percent of annual expenditures by the beginning of 1984, as a result of the provision in Public Law 98-21 which changes the financing basis of noncontributory wage credits for military service under the HI program as well as the OASDI program.

Based on the alternative II-B assumptions (table 13), the trust fund ratio falls during 1984 and 1985 until it reaches about 17 percent by the beginning of 1986. After 1985, the fund stops declining and remains at about the same relative level through 1988, largely because of the assumed repayment during 1986-88 of the $12.1 billion outstanding balance of the $12.4 billion loan from HI to OASI in 1982. (About $0.3 billion of the loan is assumed to have been repaid in 1984.) After the assumed completion of the loan repayment in 1988, the HI Trust Fund is estimated to decline rapidly and to become depleted in 1990, based on the alternative II-B assumptions.

On the basis of the alternative III assumptions (table 14), the fund declines steadily through 1986, then rises in 1987 because of the assumed complete repayment of the $12.4 billion loan in 1987. The fund is then depleted in 1988, based on alternative III assumptions.

In both tables 13 and 14, the estimated operations of the combined OASI and DI Trust Funds are shown, along with the combined operations of all three trust funds. Although the 1983 amendments extended the authority for interfund borrowing through 1987, no interfund loans would be required through that year under either set of assumptions. The estimated depletion of the HI Trust Fund occurs after the expiration of the interfund borrowing authority, and after the assumed completion of repayment of the loans made from the HI Trust Fund in 1982.

Estimates of the effects of the various provisions in the 1983 amendments which have an effect on the HI program are shown in tables 15 and 16 for calendar years 1983-89, on the basis of alternatives II-B and III, respectively.

2. Long-range estimates

Long-range estimates for the next 25 years are shown in table 17 for the HI program as amended by Public Law 98-21. The estimates are based on the alternative II-B assumptions.

As in the case of the OASDI program, annual expenditures as a percentage of taxable earnings are shown in table 17 as the cost rate. The income rate for the HI program is simply the combined scheduled tax rate for employees and employers.

In each of the 25 years in the projection period, the cost rate exceeds the income rate. The average deficit over the 25-year period is 1.35 percent of taxable earnings under the amended program—a reduction of 0.78 percent of taxable payroll from the 2.13 percent average deficit under the program as in effect before the enactment of the 1983 amendments. Thus, the deficit of the HI program was reduced by more than one-third. However, the average long-range deficit of the HI program is still very high, representing almost one-third of the total long-range cost of the program.

TABLE 1.—VALUES OF SELECTED ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS FOR 1983 ALTERNATIVES II–B AND III, BY CALENDAR YEAR

Calendar year	Percentage increase in average annual—			Average civilian unemployment rate (percent)	Total fertility rate [3]
	Wages in covered employment [1]	Consumer Price Index	Real wages [2]		
Alternative II–B:					
1982	5.6	6.0	−0.4	9.7	1.87
1983	4.3	4.1	.2	10.7	1.86
1984	7.3	6.2	1.1	9.7	1.86
1985	6.9	6.5	.4	8.8	1.87
1986	6.6	5.7	.9	8.4	1.87
1987	6.8	5.5	1.3	8.1	1.88
1988	6.7	5.3	1.4	7.8	1.88
1989	6.5	5.0	1.5	7.5	1.89
1990	5.7	4.4	1.3	7.1	1.90
1991	5.7	4.0	1.7	6.7	1.90
1992	5.6	4.0	1.6	6.4	1.91
1995	5.5	4.0	1.5	5.6	1.93
2000	5.5	4.0	1.5	5.5	1.96
2005	5.5	4.0	1.5	5.5	1.99
2010 and later	5.5	4.0	1.5	5.5	2.00
Alternative III:					
1982	5.6	6.0	−.4	9.7	1.85
1983	4.2	5.2	−1.0	11.0	1.84
1984	7.0	7.7	−.7	10.8	1.82
1985	6.8	7.5	−.7	10.1	1.81
1986	6.7	6.5	.2	9.3	1.80
1987	6.9	6.2	.7	9.0	1.79
1988	6.6	5.8	.8	8.6	1.77
1989	6.6	5.5	1.1	8.2	1.76
1990	6.0	5.0	1.0	7.8	1.75
1991	6.4	5.0	1.4	7.4	1.74
1992	6.2	5.0	1.2	7.0	1.73

[1] As defined under the law in effect before Public Law 98–21.
[2] Expressed as the difference between the percentage increases in average annual wages and average annual CPI.
[3] Average number of children born to a woman in her lifetime, assuming that she survives the child-bearing period.

TABLE 2.—ASSUMED OASDI BENEFIT INCREASES UNDER OLD LAW AND NEW LAW, BASED ON 1983 ALTERNATIVE II–B AND III ASSUMPTIONS, CALENDAR YEARS 1983–92

[In percent]

	Old law [1]		New law [2]	
	Alternative II–B	Alternative III	Alternative II–B	Alternative III
Calendar year:				
1983 [3]	3.9	4.1	3.9	4.1
1984	6.0	7.9	6.4	[4] 4.3
1985	6.5	7.8	6.5	[4] 6.8
1986	6.0	6.8	5.7	6.5
1987	5.6	6.3	5.5	6.2
1988	5.4	5.9	5.2	5.7
1989	5.1	5.6	4.9	5.4
1990	4.6	5.1	4.4	5.0
1991	4.2	5.0	4.0	[4] 5.0
1992	4.0	5.0	4.0	5.0

[1] Effective for June of each year.
[2] Effective for December of each year.
[3] Assumptions were developed before the actual benefit increase of 3.5 percent, under both old law and new law, was determined.
[4] Under the stabilizer provision, the increases for 1984 and 1985 are based on average wage increases in 1983 and 1984, respectively. The higher corresponding CPI increases, which would otherwise determine the benefit increases, are assumed to be 7.8 percent and 7.4 percent, respectively. All persons eligible for benefits for December 1990 would receive at least the assumed increase of 5 percent; however, under the "catch-up" provision, those beneficiaries who were also eligible for December of both years 1984 and 1985, and those who were eligible for December 1985 but not for December 1984, would receive total benefit increases of 9.1 percent and 5.6 percent, respectively. See accompanying text.

TABLE 3.—INCREASES IN NORMAL RETIREMENT AGE AND DELAYED RETIREMENT CREDITS, WITH RESULTING BENEFIT, AS A PERCENTAGE OF PIA, PAYABLE AT SELECTED AGES, FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of birth	Year of attainment of age 62	Normal retirement age (NRA)	Credit for each year of delayed retirement after NRA (percent)	Benefit, as a percentage of PIA, beginning at age—				
				62	65	66	67	70
1924	1986	65	3	80	100	103	106	115
1925	1987	65	3½	80	100	103½	107	117½
1926	1988	65	3½	80	100	103½	107	117½
1927	1989	65	4	80	100	104	108	120
1928	1990	65	4	80	100	104	108	120
1929	1991	65	4½	80	100	104½	109	122½
1930	1992	65	4½	80	100	104½	109	122½
1931	1993	65	5	80	100	105	110	125
1932	1994	65	5	80	100	105	110	125
1933	1995	65	5½	80	100	105½	111	127½
1934	1996	65	5½	80	100	105½	111	127½
1935	1997	65	6	80	100	106	112	130
1936	1998	65	6	80	100	106	112	130
1937	1999	65	6½	80	100	106½	113	132½
1938	2000	65, 2 mo	6½	79⅙	98⅚	105 5/12	111 11/12	131 5/12
1939	2001	65, 4 mo	7	78⅓	97⅞	104⅔	111⅔	132⅔
1940	2002	65, 6 mo	7	77½	96⅔	103½	110½	131½
1941	2003	65, 8 mo	7½	76⅔	95⅚	102½	110	131¼
1942	2004	65, 10 mo	7½	75⅚	94⅝	101¼	108¾	131¼
1943–54	2005–16	66	8	75	93⅓	100	108	132
1955	2017	66, 2 mo	8	74⅙	92⅚	98⅚	106⅔	130⅔
1956	2018	66, 4 mo	8	73⅓	91⅙	97⅞	105⅓	129⅓
1957	2019	66, 6 mo	8	72½	90	96⅔	104	128
1958	2020	66, 8 mo	8	71⅔	88⅚	95⅚	102⅔	126⅔
1959	2021	66, 10 mo	8	70⅚	87⅞	94⅝	101⅓	125⅓
1960 and later	2022 and later	67	8	70	86⅔	93⅓	100	124

TABLE 4.—OASDI AND HI TAX RATES UNDER THE OLD LAW AND THE NEW LAW

[In percent]

Year	Old law			New law		
	OASDI	HI	Total	OASDI	HI	Total
Employees and employers, each:						
1983	5.4	1.30	6.70	5.40	1.30	6.70
1984	5.4	1.30	6.70	5.70	1.30	7.00
1985	5.7	1.35	7.05	5.70	1.35	7.05
1986–87	5.7	1.45	7.15	5.70	1.45	7.15
1988–89	5.7	1.45	7.15	6.06	1.45	7.51
1990 and after	6.2	1.45	7.65	6.20	1.45	7.65
Self-employed persons:						
1983	8.05	1.30	9.35	8.05	1.3	9.35
1984	8.05	1.30	9.35	11.40	2.6	14.00
1985	8.55	1.35	9.90	11.40	2.7	14.10
1986–87	8.55	1.45	10.00	11.40	2.9	14.30
1988–89	8.55	1.45	10.00	12.12	2.9	15.02
1990 and after	9.30	1.45	10.75	12.40	2.9	15.30

TABLE 5.—OASI AND DI TAX RATES UNDER THE OLD LAW AND THE NEW LAW

[In percent]

Year	Old law			New law		
	OASI	DI	OASDI	OASI	DI	OASDI
Employees and employers, each:						
1983	4.575	0.825	5.4	4.775	0.625	5.40
1984	4.575	.825	5.4	5.200	.500	5.70
1985	4.750	.950	5.7	5.200	.500	5.70
1986–87	4.750	.950	5.7	5.200	.500	5.70
1988–89	4.750	.950	5.7	5.530	.530	6.06
1990–99	5.100	1.100	6.2	5.600	.600	6.20
2000 and after	5.100	1.100	6.2	5.490	.710	6.20
Self-employed persons:						
1983	6.8125	1.2375	8.05	7.1125	.9375	8.05
1984	6.8125	1.2375	8.05	10.4000	1.0000	11.40
1985	7.1250	1.4250	8.55	10.4000	1.0000	11.40
1986–87	7.1250	1.4250	8.55	10.4000	1.0000	11.40
1988–89	7.1250	1.4250	8.55	11.0600	1.0600	12.12
1990–99	7.6500	1.6500	9.30	11.2000	1.2000	12.40
2000 and after	7.6500	1.6500	9.30	10.9800	1.4200	12.40

TABLE 6.—ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS UNDER THE PROGRAM AS AMENDED BY PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1982-92

[Dollar amounts in billions]

Calendar year	Income			Outgo			Interfund borrowing transfers [1]	
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI
1982	$125.2	$22.7	$147.9	$142.1	$18.0	$160.1	$17.5	−$5.1
1983	150.9	21.1	171.9	151.6	17.7	169.4	.....	.....
1984	165.2	17.3	182.4	162.6	17.9	180.5	−.3	.....
1985	183.8	18.7	202.5	178.6	18.9	197.5	.....	.....
1986	201.1	20.3	221.3	196.3	20.1	216.4	−1.6	.....
1987	219.4	22.0	241.4	213.2	21.3	234.5	−2.3	.....
1988	253.3	25.2	278.5	230.8	22.7	253.6	−8.2	.....
1989	277.2	27.4	304.6	248.7	24.2	272.9	−5.1	5.1
1990	303.4	33.0	336.5	266.9	26.0	292.9	.....	.....
1991	327.9	36.0	363.9	285.0	27.8	312.8	.....	.....
1992	354.0	39.0	393.0	302.7	29.9	332.5	.....	.....

	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year [2]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1982	$0.6	−$0.4	$0.2	$22.1	$2.7	$24.8	15	17	15
1983	−.8	3.3	2.6	21.3	6.0	27.4	15	15	15
1984	2.3	−.7	1.6	23.6	5.4	29.0	20	40	22
1985	5.2	−.2	5.0	28.9	5.2	34.0	21	35	22
1986	3.2	.2	3.4	32.0	5.3	37.4	22	33	23
1987	3.9	.7	4.6	35.9	6.1	42.0	22	32	23
1988	14.2	2.5	16.7	50.1	8.5	58.7	23	34	24
1989	23.4	8.2	31.6	73.6	16.8	90.3	28	43	29
1990	36.5	7.0	43.6	110.1	23.8	133.9	36	73	39
1991	42.9	8.2	51.1	153.0	32.0	185.0	47	94	51
1992	51.3	9.1	60.4	204.3	41.1	245.4	59	116	64

[1] Positive figures represent amounts borrowed by the trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by the trust fund or repayments of prior loans from other trust funds.

[2] Assets at beginning of year are defined for the OASI and DI trust funds as assets at end of prior year plus the respective OASI and DI advance tax transfers for January.

TABLE 7.—ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS UNDER THE PROGRAM AS AMENDED BY PUBLIC LAW 98–21, BASED ON 1983 ALTERNATIVE III ASSUMPTIONS, CALENDAR YEARS 1982–92

[Dollar amounts in billions]

Calendar year	Income			Outgo			Interfund borrowing transfers [1]	
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI
1982	$125.2	$22.7	$147.9	$142.1	$18.0	$160.1	$17.5	−$5.1
1983	150.2	21.0	171.2	151.7	17.7	169.4		
1984	162.0	17.0	179.0	163.1	17.9	181.0		
1985	179.1	18.2	197.3	175.9	18.5	194.4		
1986	196.7	19.9	216.6	194.0	19.8	213.8		
1987	215.1	21.6	236.7	212.6	21.2	233.7	−12.4	
1988	248.2	24.7	272.9	232.0	22.7	254.7		
1989	271.8	26.9	298.7	251.5	24.3	275.8	−5.1	5.1
1990	297.9	32.6	330.5	271.7	26.1	297.8		
1991	323.1	35.7	358.8	292.3	28.0	320.3		
1992	350.1	38.9	389.0	322.8	30.6	353.5		

	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year [2]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1982	$0.6	−$0.4	$0.2	$22.1	$2.7	$24.8	15	17	15
1983	−1.5	3.3	1.8	20.6	6.0	26.6	15	15	15
1984	−1.1	−1.0	−2.1	19.6	5.0	24.5	20	40	22
1985	3.3	−.3	2.9	22.8	4.6	27.5	18	33	20
1986	2.8	.1	2.8	25.6	4.7	30.3	19	30	20
1987	−9.9	.4	−9.5	15.7	5.1	20.8	19	29	20
1988	16.2	2.0	18.2	31.8	7.2	39.0	14	30	16
1989	15.1	7.7	22.9	47.0	14.9	61.9	20	37	22
1990	26.2	6.5	32.7	73.1	21.4	94.6	25	66	29
1991	30.8	7.7	38.4	103.9	29.1	133.0	33	85	37
1992	27.3	8.3	35.6	131.2	37.4	168.6	40	104	45

[1] Positive figures represent amounts borrowed by the trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by the trust fund or repayments or prior loans from other trust funds.

[2] Assets at beginning of year are defined for the OASI and DI trust funds as assets at end of prior year plus the respective OASI and DI advance tax tranfers for January.

TABLE 8.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98–21, BASED ON 1983 ALTERNATIVE II–B ASSUMPTIONS, CALENDAR YEARS 1983–89

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Increase tax rate on covered wages and salaries		8.6	0.3			14.5	16.0	39.4
Increase tax rate on covered self-employment earnings		1.1	3.1	3.0	3.2	3.7	4.4	18.5
Cover all Federal elected officials and political appointees		(1)	(1)	(1)	(1)	(1)	(1)	.1
Cover new Federal employees		.2	.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees		1.3	1.5	1.8	2.1	2.6	3.0	12.4
Total for new coverage		1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations		.1	.2	.4	.6	.8	1.1	3.2
Accelerate collection of State and local taxes		.6	(1)	(1)	.1	.1	.1	1.0
Modify general fund financing basis for noncontributory military service credits	18.4	−.4	−.4	−.3	−.4	−.4	−.4	16.1
Provide reimbursements from general fund for unnegotiated checks	1.3	.1	.1	.1	.1	.1	.1	1.6
Delay benefit increases 6 months	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Continue benefits on remarriage		(2)	(2)	(2)	(2)	(2)	(2)	−.1
Modify indexing of deferred survivors' benefits			(2)	(2)	(2)	(2)	(2)	(2)
Raise disabled widow(er)'s benefits to 71.5 percent of PIA		−.2	−.2	−.2	−.2	−.3	−.3	−1.4
Pay divorced spouses whether or not worker has retired			(2)	(2)	(2)	(2)	(2)	−.1
Replace 90-percent factor in benefit formula with variable percentage, for individuals receiving pensions from noncovered employment				(3)	(3)	(3)	.1	.1
Offset spouses benefits by up to two-thirds of noncovered Government pension	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Expand use of death certificates to stop benefits	(3)	(3)	(3)	(3)	(3)	(3)	(3)	.1
Impose 5-year residency requirement for certain aliens			(3)	(3)	(3)	(3)	(3)	.1
Tax one-half of benefits for high income beneficiaries		2.6	3.2	3.9	4.7	5.6	6.7	26.6
All other miscellaneous and technical changes	(2)	(2)	(2)	(2)	(2)	(2)	(2)	−.1
Total for all changes	22.8	19.2	13.9	15.3	18.0	35.8	41.2	166.2

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

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

TABLE 9.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE III ASSUMPTIONS, CALENDAR YEARS 1983-89

[In billions of dollars]

Provision	Calendar year—							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Increase tax rate on covered wages and salaries		8.4	0.3			14.2	15.8	38.7
Increase tax rate on covered self-employment earnings		1.0	3.1	3.0	3.2	3.6	4.4	18.4
Cover all Federal elected officials and political appointees		(1)	(1)	(1)	(1)	(1)	(1)	.1
Cover new Federal employees		.2	.7	1.2	1.8	2.4	3.1	9.4
Cover all nonprofit employees		1.3	1.5	1.8	2.1	2.6	3.0	12.3
Total for new coverage		1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations		.1	.2	.4	.6	.8	1.0	3.1
Accelerate collection of State and local taxes		.7	(1)	(1)	.1	.1	.1	1.0
Modify general fund financing basis for noncontributory military service credits	18.4	−.4	−.4	−.4	−.4	−.4	−.4	15.8
Provide reimbursements from general fund for unnegotiated checks	1.3	.1	.1	.1	.1	.1	.1	1.6
Delay benefit increases 6 months	3.3	6.9	7.7	8.3	9.1	9.6	10.4	55.3
Limit benefit increase to lesser of wage or price increase, under certain conditions			6.3	7.8	8.2	8.6	8.9	39.9
Continue benefits on remarriage		(2)	(2)	(2)	(2)	(2)	(2)	−.1
Modify indexing of deferred survivors' benefits			(2)	(2)	(2)	(2)	(2)	(2)
Raise disabled widow(er)'s benefits to 71.5 percent of PIA		−.2	−.2	−.2	−.2	−.3	−.3	−1.4
Pay divorced spouses whether or not worker has retired			(2)	(2)	(2)	(2)	(2)	−.1
Replace 90-percent factor in benefit formula with variable percentage, for individuals receiving pensions from noncovered employment				(3)	(3)	(3)	.1	.1
Offset spouses benefits by up to two-thirds of noncovered Government pension	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Expand use of death certificates to stop benefits	(3)	(3)	(3)	(3)	(3)	(3)	(3)	.1
Impose 5-year residency requirement for certain aliens			(3)	(3)	(3)	(3)	(3)	.1
Tax one-half of benefits for high income beneficiaries		2.6	3.1	3.8	4.7	5.6	6.8	26.6
All other miscellaneous and technical changes	(2)	(2)	(2)	(2)	(2)	(2)	(2)	−.1
Total for all changes	23.0	20.7	22.4	25.8	29.1	47.0	52.9	220.7

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

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

TABLE 10.—ESTIMATED LONG-RANGE OASDI COST EFFECT OF THE SOCIAL SECURITY AMENDMENTS OF 1983 (PUBLIC LAW 98-21)

Section	Provision	Effect, as percent of taxable payroll		
		OASI	DI	OASDI
	Old law:			
	Average cost rate	13.04	1.34	14.38
	Average tax rate	10.13	2.17	12.29
	Actuarial balance	−2.92	+.83	−2.09
	Changes included in titles I and III of the amendments [1]:			
101	Cover new Federal employees	+.26	+.02	+.28
102	Cover all non-profit employees	+.09	+.01	+.10
103	Prohibit State and local termination	+.06	+.00	+.06
111	Delay benefiter increases 6 months	+.28	+.03	+.30
113	Eliminate "windfall" benefits	+.04	+.00	+.04
114	Increase delayed retirement credits	−.10	.....	−.10
121	Taxation of benefits	+.56	+.05	+.61
123	Accelerate tax rate increase	+.03	.....	+.03
124	Increase tax rate on self-employment	+.17	+.02	+.19
124	Adjust self-employment income	−.02	−.00	−.03
125	Change DI tax rate allocation	+.81	−.81	.....
131	Continue benefits on remarriage	−.00	−.00	−.00
132	Pay divorced spouses of non-retired workers	−.01	−.00	−.01
133	Modify indexing of widow(er) benefits	−.05	.....	−.05
134	Raise disabled widow(er)'s benefits	−.01	.....	−.01
151	Modify military credits financing	+.01	+.00	+.01
152	Reimburse unnegotiated checks	+.00	+.00	+.00
324	Tax certain salary reduction plans	+.03	+.00	+.03
337	Modify public pension offset	−.00	−.00	−.00
340	Suspend auxiliary benefits for certain aliens	+.00	+.00	+.00
348	Modify earnings test at ages 65 and over [2]	−.01	.....	−.01
	All other provisions of Titles I and III	−.00	−.00	−.00
	Subtotal for the effect of the above provisions [3]	+2.07	−.68	+1.38
	Remaining deficit after the above provisions	−.85	+.15	−.71
	Additional change relating to long-term financing (Title II of the amendments) [4]:			
201	Raise normal retirement age to 67	+.83	−.12	+.71
	Total effect of all of the provisions [5]	+2.89	−.80	+2.09
	New law:			
	Actuarial balance	−.03	+.03	−.00
	Average income rate	11.47	1.42	12.89
	Average cost rate	11.50	1.39	12.89

[1] The values for each of the individual provisions listed from Title I and Title III represent the effect over old law and do not take into account interaction with other provisions, with the exception of Section 348.
[2] Estimates for modifying the earnings test take into account interaction with Section 114, which increases delayed retirement credits.
[3] The values in the subtotal for all provisions included in Title I and Title III take into account the estimated interactions among these provisions.
[4] The values take into account interaction with the provisions included in Title I and Title III.
[5] The values for the total effect of the amendments take into account interactions among all of the provisions.

Note: The above estimates are based on the 1983 alternative II-B assumptions. Individual estimates may not add to totals due to rounding and/or interaction amount proposals.

TABLE 11.—ESTIMATED LONG-RANGE OASDI ANNUAL COST RATE, INCOME RATE, AND ACTUARIAL BALANCE UNDER THE PROGRAM AS AMENDED BY PUBLIC LAW 98-21

[Percent of taxable payroll]

Year	Cost rate			Income rate			Actuarial balance [1]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1983	10.74	1.26	12.00	[2] 10.83	[2] 1.42	[2] 12.25	+0.09	+0.17	+0.26
1984	10.24	1.13	11.37	10.58	1.02	11.59	+0.33	−0.11	+0.22
1985	10.25	1.08	11.34	10.59	1.02	11.61	+0.33	−0.06	+0.27
1986	10.34	1.06	11.40	10.61	1.02	11.63	+0.26	−0.04	+0.22
1987	10.32	1.03	11.35	10.62	1.02	11.65	+0.30	−0.01	+0.29
1988	10.32	1.02	11.34	11.30	1.08	12.39	+0.98	+0.07	+1.05
1989	10.28	1.00	11.28	11.33	1.09	12.41	+1.05	+0.08	+1.13
1990	10.29	1.00	11.29	11.49	1.23	12.72	+1.21	+0.23	+1.44
1991	10.23	1.00	11.23	11.52	1.23	12.75	+1.29	+0.23	+1.52
1992	10.15	1.00	11.16	11.55	1.23	12.79	+1.40	+0.23	+1.63
1993	10.02	1.00	11.02	11.56	1.24	12.80	+1.54	+0.24	+1.78
1994	9.89	.99	10.86	11.57	1.24	12.80	+1.70	+0.25	+1.94
1995	9.72	.98	10.80	11.57	1.24	12.80	+1.85	+0.25	+2.10
1996	9.55	.98	10.53	11.56	1.24	12.80	+2.01	+0.26	+2.27
1997	9.32	.97	10.36	11.56	1.24	12.80	+2.17	+0.27	+2.43
1998	9.27	.99	10.26	11.56	1.24	12.80	+2.29	+0.25	+2.54
1999	9.15	1.01	10.16	11.56	1.24	12.79	+2.40	+0.23	+2.63
2000	9.04	1.03	10.07	11.33	1.46	12.79	+2.29	+0.43	+2.72
2001	8.93	1.06	10.00	11.33	1.46	12.79	+2.39	+0.40	+2.78
2002	8.87	1.10	9.97	11.33	1.46	12.79	+2.46	+0.36	+2.83
2003	8.80	1.14	9.94	11.33	1.46	12.79	+2.53	+0.32	+2.86
2004	8.75	1.18	9.93	11.33	1.47	12.80	+2.58	+0.29	+2.87
2005	8.72	1.22	9.93	11.33	1.47	12.80	+2.61	+0.25	+2.86
2006	8.71	1.26	9.97	11.33	1.47	12.80	+2.62	+0.21	+2.84
2007	8.73	1.29	10.02	11.34	1.47	12.81	+2.60	+0.18	+2.78
2010	8.95	1.40	10.35	11.35	1.48	12.83	+2.40	+0.08	+2.48
2015	9.95	1.51	11.46	11.40	1.48	12.89	+1.45	−0.03	+1.43
2020	11.25	1.58	12.83	11.47	1.49	12.96	+0.22	−0.10	+0.13
2025	12.44	1.64	14.08	11.54	1.49	13.03	−0.90	−0.15	−1.03
2030	13.27	1.57	14.84	11.59	1.49	13.09	−1.68	−0.08	−1.75
2035	13.68	1.53	15.22	11.63	1.49	13.12	−2.05	−0.04	−2.10
2040	13.65	1.55	15.20	11.65	1.49	13.14	−2.00	−0.06	−2.06
2045	13.61	1.58	15.19	11.66	1.50	13.16	−1.95	−0.09	−2.03
2050	13.69	1.58	15.27	11.67	1.50	13.16	−2.03	−0.08	−2.10
2055	13.82	1.54	15.39	11.67	1.50	13.17	−2.15	−0.07	−2.22
2060	13.88	1.55	15.43	11.68	1.50	13.17	−2.20	−0.06	−2.26
25-year averages:									
1983–2007	9.63	1.07	10.70	11.28	1.27	12.55	+1.65	+0.20	+1.85
2008–2032	11.17	1.54	12.71	11.47	1.49	12.93	+0.30	+0.05	+0.25
2033–2057	13.69	1.56	15.25	11.66	1.50	13.15	−2.63	−0.07	−2.10
75-year average:									
1983–2057	11.50	1.39	12.89	11.47	1.42	12.89	−0.03	+0.03	−0.00

[1] A positive balance indicates a surplus; a negative balance indicates a deficit.
[2] In 1983 only, income rates include lump-sum reimbursement for costs attributable to wage credits for military service performed before 1957.

Note: The above estimates are based on the 1983 alternative II-B assumptions.

TABLE 12.—ESTIMATED LONG-RANGE OASI AND DI TRUST FUND RATIOS UNDER THE PROGRAM AS AMENDED BY PUBLIC LAW 98-21

[In percent]

Year	OASI	DI	OASDI	Year	OASI	DI	OASDI
1981	18	21	18	2021	548	358	525
1982	15	17	15	2022	539	350	516
1983	15	15	15	2023	529	342	507
1984	20	40	22	2024	518	334	496
1985	21	35	22	2025	506	326	485
1986	22	33	23	2026	494	320	474
1987	22	32	23	2027	481	316	462
1988	23	34	24	2028	467	313	450
1989	28	43	29	2029	453	311	438
1990	36	73	39	2030	440	310	426
1991	47	94	51	2031	426	309	413
1992	59	116	64	2032	411	308	401
1993	73	139	79	2033	397	307	388
1994	89	163	95	2034	383	306	375
1995	106	187	114	2035	369	305	362
1996	126	213	134	2036	355	304	350
1997	148	239	157	2037	342	302	338
1998	172	260	180	2038	329	299	326
1999	197	277	205	2039	316	295	314
2000	224	293	231	2040	304	293	303
2001	251	321	258	2041	291	290	291
2002	278	344	286	2042	279	285	279
2003	307	362	313	2043	266	281	267
2004	336	377	341	2044	253	277	255
2005	366	387	369	2045	240	272	243
2006	395	395	395	2046	227	268	231
2007	424	400	421	2047	214	264	219
2008	451	402	445	2048	200	260	206
2009	477	403	467	2049	187	256	194
2010	500	403	487	2050	173	252	181
2011	519	401	503	2051	159	249	168
2012	535	400	517	2052	144	245	155
2013	547	398	527	2053	130	241	141
2014	557	395	535	2054	115	238	126
2015	563	392	540	2055	100	234	114
2016	566	387	543	2056	85	231	100
2017	567	383	543	2057	70	228	86
2018	565	378	541	2058	55	224	72
2019	561	373	538	2059	39	222	58
2020	555	366	532	2060	24	219	44

Note: The above estimates are based on the 1983 alternative II-B assumptions. The trust fund ratio is defined as the ratio of the trust fund balance at the beginning of the year to the outgo during the year. After 1983, ratios reflects the inclusion of advance tax transfers for January. These estimates assume that the $12.4 billion borrowed by OASI from HI in 1982 will be repaid as follows: $0.3 billion in 1984, $1.6 billion in 1986, $2.3 billion in 1987. and $8.2 billion in 1988. It is also assumed that the $5.1 billion borrowed from DI in 1982 will be repaid in 1989.

TABLE 13.—ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS AND OF THE HI TRUST FUND UNDER THE PROGRAM AS AMENDED BY PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1982-92

[Dollars in billions]

Calendar year	Income			Outgo			Interfund borrowing transfers [1]	
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI
1982	$147.9	$38.0	$185.9	$160.1	$36.1	$196.3	$12.4	−$12.4
1983	171.9	44.7	216.6	169.4	41.1	210.5		
1984	182.4	45.9	228.3	180.5	46.8	227.4	−.3	.3
1985	202.5	52.2	254.7	197.5	53.0	250.4		
1986	221.3	60.2	281.5	216.4	59.9	276.3	−1.6	1.6
1987	241.4	65.2	306.6	234.5	67.5	302.0	−2.3	2.3
1988	278.5	69.8	348.3	253.6	75.9	329.5	−8.2	8.2
1989	304.6	74.4	379.0	272.9	85.5	358.4		
1990	336.5	78.7	415.1	292.9	95.1	388.0		
1991	363.9	82.7	446.6	312.8	104.9	417.8		
1992	393.0	86.8	479.7	332.5	116.1	448.6		

Calendar year	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year [2]		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$0.2	−$10.6	−$10.3	$24.8	$8.2	$32.9	15	52	22
1983	2.6	3.6	6.1	27.4	11.7	39.1	15	20	16
1984	1.6	−.6	1.0	29.0	11.1	40.1	22	25	23
1985	5.0	−.7	4.3	34.0	10.4	44.4	22	21	22
1986	3.4	1.9	5.3	37.4	12.3	49.7	23	17	22
1987	4.6	([3])	4.6	42.0	12.3	54.3	23	18	22
1988	16.7	2.2	18.9	58.7	14.5	73.2	24	16	22
1989	31.6	−11.1	20.6	90.3	3.4	93.7	29	17	26
1990	43.6	−16.4	27.2	133.9	−13.0	120.9	39	4	30
1991	51.1	−22.2	28.9	185.0	−35.2	149.8	51	−12	35
1992	60.4	−29.3	31.1	245.4	−64.5	180.9	64	−30	39

[1] Positive figures represent amounts borrowed by the trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by the trust fund or repayments of prior loans from other trust funds.

[2] Assets at beginning of year are defined for the OASI and DI Trust Funds as assets at end of prior year plus the respective OASI and DI advance tax transfers for January.

[3] Between $0 and $50 million.

TABLE 14.—ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS AND OF THE HI TRUST FUND UNDER THE PROGRAM AS AMENDED BY PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE III ASSUMPTIONS, CALENDAR YEARS 1982-92

[Dollars in billions]

Calendar year	Income			Outgo			Interfund borrowing transfers [1]	
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI
1982	$147.9	$38.0	$185.9	$160.1	$36.1	$196.3	$12.4	−$12.4
1983	171.2	44.5	215.8	169.4	41.1	210.6		
1984	179.0	45.1	224.1	181.0	47.0	228.0		
1985	197.3	50.9	248.3	194.4	53.8	248.2		
1986	216.6	58.8	275.4	213.8	62.1	275.9		
1987	236.7	63.4	300.1	233.7	71.3	305.0	−12.4	12.4
1988	272.9	67.4	340.3	254.7	81.7	336.4		
1989	298.7	71.4	370.1	275.8	93.8	369.6		
1990	330.5	74.7	405.2	297.8	106.4	404.2		
1991	358.8	77.8	436.5	320.3	120.1	440.4		
1992	389.0	80.6	469.6	353.5	135.9	489.4		

Calendar year	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year [2] (in percent)		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$0.2	$−10.6	−$10.3	$24.8	$8.2	$32.9	15	52	22
1983	1.8	3.4	5.2	26.6	11.6	38.1	15	20	16
1984	−2.1	−1.9	−3.9	24.5	9.7	34.2	22	25	22
1985	2.9	−2.9	.1	27.5	6.8	34.2	20	18	19
1986	2.8	−3.3	−.5	30.3	3.4	33.7	20	11	18
1987	−9.5	4.5	−5.0	20.8	8.0	28.8	20	5	17
1988	18.2	−14.3	3.9	39.0	−6.3	32.7	16	10	14
1989	22.9	−22.4	.5	61.9	−28.7	33.2	22	−7	15
1990	32.7	−31.7	.9	94.6	−60.5	34.1	29	−27	14
1991	38.4	−42.3	−3.9	133.0	−120.8	30.2	37	−50	14
1992	35.6	−55.3	−19.7	168.6	−158.1	10.5	45	−76	12

[1] Positive figures represent amounts borrowed by the trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by the trust fund or repayments of prior loans from other trust funds.

[2] Assets at beginning of year are defined for the OASI and DI Trust Funds as assets at end of prior year plus the respective OASI and DI advance tax transfers for January.

TABLE 15.—ESTIMATED AMOUNTS OF CHANGES IN HI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1983-89

[In billions of dollars]

Provision	Calendar year—							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Provide for prospective hospital reimbursement [1]			0.2	2.0	3.6	5.2	7.0	18.0
Delay single reimbursement rate for nursing facilities	(2)	(2)						(2)
Reduce allowable return on equity	(3)	.1	.1	.1	.1	.1	.2	.7
Increase tax rate on covered self-employment earnings		.4	1.3	1.5	1.6	1.7	1.8	8.3
Cover all Federal elected officials and political appointees		(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cover all nonprofit employees		.3	.4	.5	.5	.6	.7	3.0
Prohibit State and local government terminations		(4)	.1	.1	.1	.2	.3	.8
Accelerate collection of State and local taxes		.2	(4)	(4)	(4)	(4)	(4)	.2
Modify general fund financing basis for noncontributory military service credits	3.3	−.1	−.1	−.1	−.1	−.1	−.1	2.5
Total for HI changes	3.3	.8	1.9	4.1	5.9	7.8	9.8	33.6

[1] Savings attributable to prospective payments were computed as the additional savings which would be generated in fiscal year 1986 and later by eliminating the October 1985 sunset provision on the hospital rate-of-increase limits of sec. 101(b) of the Tax Equity and Fiscal Responsibility Act of 1982. The prospective payment legislation as passed by Congress does not mandate a system which would necessarily generate this level of savings. Instead, the level of prospective payment rates is left to the discretion of the Secretary of HHS.

[2] Additional benefits of less than $50,000,000.

[3] Reduction in provider reimbursement of less than $50,000,000.

[4] Net additional tax income of less than $50,000,000.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

TABLE 16.—ESTIMATED AMOUNTS OF CHANGES IN HI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE III ASSUMPTIONS, CALENDAR YEARS 1983-89

[In billions of dollars]

Provision	Calendar year—							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Provide for prospective hospital reimbursement [1]			0.2	2.1	3.8	5.6	7.6	19.4
Delay single reimbursement rate for nursing facilities	(2)	(2)						(2)
Reduce allowable return on equity	(3)	.1	.1	.1	.2	.2	.2	.9
Increase tax rate on covered self-employment earnings		.4	1.3	1.5	1.6	1.7	1.8	8.3
Cover all Federal elected officials and political appointees		(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cover all nonprofit employees		.3	.4	.5	.5	.6	.7	3.0
Prohibit State and local government terminations		(4)	.1	.1	.1	.2	.2	.8
Accelerate collection of State and local taxes		.2	(4)	(4)	(4)	(4)	(4)	.2
Modify general fund financing basis for noncontributory military service credits	3.3	−.1	−.1	−.1	−.1	−.1	−.1	2.5
Total for HI changes	3.3	.8	1.9	4.2	6.2	8.2	10.5	35.0

[1] Savings attributable to prospective payments were computed as the additional savings which would be generated in fiscal year 1986 and later by eliminating the October 1985 sunset provision on the hospital rate-of-increase limits of sec. 101(b) of the Tax Equity and Fiscal Responsibility Act of 1982. The prospective payment legislation as passed by Congress does not mandate a system which would necessarily generate this level of savings. Instead, the level of prospective payment rates is left to the discretion of the Secretary of HHS.

[2] Additional benefits of less than $50,000,000.

[3] Reduction in provider reimbursement of less than $50,000,000.

[4] Net additional tax income of less than $50,000,000.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

TABLE 17.—ESTIMATED LONG-RANGE HI ANNUAL COST RATE, ANNUAL INCOME RATE, AND ACTUARIAL BALANCE UNDER THE PROGRAM AS AMENDED BY PUBLIC LAW 98-21

[Percent of taxable payroll]

Year	Cost rate [1]	Income rate [2]	Difference [3]
1983	2.78	2.60	−0.18
1984	2.79	2.60	−0.19
1985	2.89	2.70	−0.19
1986	3.01	2.90	−0.11
1987	3.14	2.90	−0.24
1988	3.27	2.90	−0.37
1989	3.42	2.90	−0.52
1990	3.54	2.90	−0.64
1991	3.67	2.90	−0.77
1992	3.80	2.90	−0.90
1993	3.92	2.90	−1.02
1994	4.06	2.90	−1.16
1995	4.20	2.90	−1.30
1996	4.34	2.90	−1.44
1997	4.46	2.90	−1.56
1998	4.60	2.90	−1.70
1999	4.71	2.90	−1.81
2000	4.83	2.90	−1.93
2001	4.96	2.90	−2.06
2002	5.10	2.90	−2.20
2003	5.30	2.90	−2.40
2004	5.39	2.90	−2.49
2005	5.55	2.90	−2.65
2006	5.73	2.90	−2.85
2007	5.91	2.90	−3.01
25-year average: 1983–2007	4.22	2.87	−1.35
Under old law: 1983–2007	5.00	2.87	−2.13

[1] Defined as the annual expenditures of the program, expressed as a percentage of the effective taxable payroll. It does not include additional amounts that would be needed to maintain the trust fund balance at an adequate level.

[2] This is simply the combined employee-employer tax rate. The provision for taxation of benefits—which is an additional source of income for the OASDI program—does not apply to the HI program.

[3] A positive figure indicates a surplus; a negative balance indicates a deficit.

Note: The above estimates are based on the 1983 alternative II-B assumptions.

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ROBERT J. DOLE, *Chairman*

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STAFF DATA AND MATERIALS ON THE STATUS OF SOCIAL SECURITY FINANCING

INTRODUCTION

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

The projections contained in the 1982 reports of the Board of Trustees reveal that the social security system is seriously underfinanced in both the short- and long-range. To ensure that benefits continue to be paid in a timely manner, corrective action will be required early in the 98th Congress.

This document describes the current manner of financing the social security programs, the means by which financial soundness is measured, and the current financial condition of the system both in the short and long term. For this latter purpose, the staff has obtained estimates from the Social Security Administration (SSA), the Health Care Financing Administration (HCFA), the Congressional Budget Office (CBO), and the staff of the National Commission on Social Security Reform. The projections provided by SSA and HCFA are based on the intermediate (II-B) and pessimistic assumptions contained in the 1982 Trustees' reports. The CBO estimates are based on CBO's Fall of 1982 economic assumptions. The forecasts provided by these organizations include the estimated effects of the "Tax Equity and Fiscal Responsibility Act of 1982" (P.L. 97-248).

I. Method of Financing the System

BASIS OF SOCIAL SECURITY FINANCING

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

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

Three social security programs are designed to operate on this self-sustaining basis. The old-age and survivors insurance (OASI) program pays benefits to retired workers and their dependent spouses and children and to the surviving spouses and children of deceased workers. The disability insurance (DI) program pays benefits to disabled workers and to their dependent spouses and children. The hospital insurance (HI) program, part A of medicare, provides for the costs of hospitalization and certain skilled nursing home and home health care for social security beneficiaries who are age 65 and older or who have been on the DI rolls for more than 2 years.

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

Interfund borrowing

Prior to legislation enacted in 1981 (P.L. 97-123), each social security program had to meet its benefit obligations through the balances in its own trust fund. That is, the financial operations of the OASI, DI, and HI programs were completely independent. The 1981 legislation authorized "interfund borrowing" whereby on a temporary basis the surplus balances in any one trust fund may be used to help finance benefits paid out of the other trust funds. Borrow-

ing is authorized only through December 31, 1982 in amounts not to exceed those which are required by the borrowing fund to ensure that benefits can be paid for an additional six months (i.e., as of December 31, 1982, the Secretary of the Treasury may borrow enough funds to cover benefits through June of 1983). Any such loans are to be repaid with interest.

The first such transfer, of $581 million, was made from the DI trust fund to the OASI trust fund on November 5, 1982 to help pay retirement and survivors' benefits. A second transfer of $3.4 billion, was made to the OASI trust fund from the HI trust fund on December 7.

Supplementary Medical Insurance

Supplementary Medical Insurance (SMI), referred to as Part B of medicare, is a fourth social security program. A person who is entitled to HI benefits will be automatically enrolled in SMI, but he may decline coverage. Other persons 65 and older, who are not eligible for the HI benefits, can enroll in SMI at certain designated times. Generally, SMI covers the cost of services furnished by doctors, hospital outpatient facilities, home health agencies and various other medical services.

The SMI program, unlike the other three programs, is not compulsory and is not financially self-sustaining. This program receives no proceeds from the social security tax and is heavily supported by the general fund of the Treasury. Originally (in 1965), 50 percent of the cost of the program was borne by beneficiaries, through monthly premiums, with the other 50 percent borne by the general fund of the Treasury. Today, beneficiaries bear 25 percent of the cost with the remainder borne by the general fund. Because of its very different financing basis, SMI is generally not considered in discussions of social security financing.

SOURCES OF INCOME

Currently, there are 116 million workers (including those in part-time and temporary jobs) and their employers who pay social security taxes. The social security payroll tax is a composite of three separate tax rates supporting OASI, DI, and HI. (Actually there are only two separate taxes in the law—OASDI and HI—but the OASI/DI allocations are statutorily specified). All of the receipts of the payroll tax are credited to the three social security trust funds. Excess amounts not required to meet current benefits and administrative expenses are invested in U.S. Government securities. Accumulated assets are not generally transferable between trust funds. However, the temporary interfund borrowing authority in present law does permit such transfers on a loan basis, subject to repayment with appropriate interest.

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

In fiscal year 1981, payroll tax revenues accounted for 97.8 percent of the income to the OASDI programs, transfers from the general fund for various expenditures accounted for 0.5 percent, and interest on investments accounted for 1.7 percent. As for the HI trust fund, 92.6 percent of receipts consisted of tax revenues, 2.5 percent represented transfers from the general fund for various expenditures, and 4.0 percent represented interest on investments.

Tables 43–45 in the final section of this print detail the composition of social security income over the years as among payroll taxes, general revenues, and interest income.

CURRENTLY SCHEDULED TAX RATES AND TAXABLE EARNINGS BASE

Tax rates

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

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

[In percent]

Calendar years	OASI [1]	DI [2]	OASDI	HI [3]	Total (OASDHI)
EMPLOYERS AND EMPLOYEES, EACH					
1977	4.375	0.575	4.95	0.90	5.85
1978	4.275	.775	5.05	1.00	6.05
1979	4.330	.750	5.08	1.05	6.13
1980	4.520	.560	5.08	1.05	6.13
1981	4.700	.650	5.35	1.30	6.65
1982–84	4.575	.825	5.40	1.30	6.70
1985	4.750	.950	5.70	1.35	7.05
1986–89	4.750	.950	5.70	1.45	7.15
1990 and later	5.100	1.100	6.20	1.45	7.65
SELF-EMPLOYED PERSONS					
1977	6.1850	0.8150	7.00	0.90	7.90
1978	6.0100	1.0900	7.10	1.00	8.10
1979	6.0100	1.0400	7.05	1.05	8.10
1980	6.2725	.7775	7.05	1.05	8.10
1981	7.0250	.9750	8.00	1.30	9.30
1982–84	6.8125	1.2375	8.05	1.30	9.35
1985	7.1250	1.4250	8.55	1.35	9.90
1986–89	7.1250	1.4250	8.55	1.45	10.00
1990 and later	7.6500	1.6500	9.30	1.45	10.75

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

The earnings base

In 1982, the tax applies to the first $32,400 of an individual's earnings. The amount of earnings subject to the tax rises each year

depending on the increase in average wages that occurs from one year to the next. The amount of earnings subject to social security taxes in 1983 will rise to $35,700.

The table which follows shows the projected increase in the earnings base over the next several years.

TABLE 2.—ANNUAL EARNINGS SUBJECT TO SOCIAL SECURITY TAX

	Actual	CBO	Intermediate II-B	Pessimistic
Calendar year:				
1980	$25,900			
1981	29,700			
1982	32,400			
1983 [1]	35,700			
1984		36,900	37,500	37,200
1985		39,000	40,500	39,900
1986		41,700	43,800	42,900
1987		44,700	46,800	46,800
1988		47,700	50,100	51,000
1989		51,000	53,400	55,500
1990		54,600	57,000	60,300

[1] The taxable earnings base for 1983 was recently determined to be $35,700.

Table 3 shows how scheduled increases in the tax rate combined with expected increases in the amount of earnings subject to the tax are likely to produce sharp increases in the amount of taxes paid by average and maximum earners over the next several years.

TABLE 3.—PAYROLL TAXES PAID BY AVERAGE AND MAXIMUM EARNERS 1980–90 [1]

Calendar years	Average earner [2]		Maximum earner [2]	
	Employer and Employee each	Self-employed	Employer and Employee each	Self-employed
1980	$767.08	$1,013.59	$1,587.67	$2,097.90
1981	904.02	1,264.27	1,975.05	2,762.10
1982	971.21	1,355.35	2,170.80	3,029.40
1983	1,049.49	1,464.58	2,391.90	3,337.95
1984	1,134.07	1,582.62	2,512.50	3,506.25
1985	1,275.99	1,791.81	2,855.25	4,009.50
1986	1,382.05	1,932.94	3,131.70	4,380.00
1987	1,473.58	2,060.96	3,346.20	4,680.00
1988	1,570.73	2,196.83	3,582.15	5,010.00
1989	1,670.50	2,336.36	3,818.10	5,340.00
1990	1,894.74	2,662.54	4,360.50	6,127.50
1980–90 Cumulative	14,093.46	19,661.85	31,731.82	44,280.60

[1] Based on 1982 Trustees' report intermediate II-B assumptions.

[2] An average earner is defined as a worker with annual earnings equal to the average earnings reported to IRS; a maximum earner is defined as one with annual earnings equal to the taxable earnings base.

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As illustrated, the worker with average earnings paid $971.21 in taxes in 1982, matched by his employer. The same worker is expected to pay almost twice that amount, $1,894.74, in 1990. The tax payment of an employee with earnings equal to the taxable earnings base (i.e., one who pays the maximum tax) is expected to rise from $2,170.80 in 1982 to $4,360.50 in 1990, matched by the employer's tax. The increase in taxes between now and the end of the decade reflect the 3 scheduled tax increases now in the law (for 1985, 1986, and 1990), and the continuous rise in the earnings base.

BRIEF HISTORY OF PAYROLL TAX STRUCTURE

Collection of payroll taxes began in 1937. Since that time the financing of the system has been amended more than 20 times. The tax rate has risen 16 times as has the earnings base. Beginning with a tax rate on employees and employers, each, of 1 percent on earnings up to $3,000 annually, the tax structure remained constant until 1950 when the rate rose to 1.5 percent. (Earlier increases had been scheduled, but legislation precluded them from going into effect.) In 1951, the earnings base increased for the first time to $3,600, and the self-employed were brought under the system with a tax rate of 2.25 percent, i.e., 1.5 times the employee/employer rate. The employee/employer rate rose again in 1954 to 2 percent. Coupled with many expansions in the system (the introduction of disability insurance and medicare foremost among them), more than a dozen changes in the financial structure of the system have been made since the early 1950's.

Today, the maximum employee tax is $2,170.80 (6.7 percent times $32,400) and the maximum tax for a self-employed worker is $3,029.40 (9.35 percent times $32,400). In 1983, the maximum employee tax is scheduled to be $2,391.90 (6.7 percent times $35,700) and the maximum tax for a self-employed worker is $3,337.95 (9.35 percent times $35,700).

According to a study by the Social Security Administration, 24 percent of households paying social security taxes pay more to finance social security than they pay to the Internal Revenue Service in Federal income taxes. If it is assumed that the employee ultimately bears the cost of the employer's tax through depressed wages, 51 percent of taxpaying households pay more in social security taxes than in income taxes (based on 1979 data).

A summary of the year-by-year tax rates and taxable earnings bases since 1937 is provided in the following table.

TABLE 4.—HISTORICAL SOCIAL SECURITY TAXES

Calendar years	OASDHI tax rate and taxable earnings base			Maximum OASDHI tax payment	
	Taxable earnings base	Tax rate		Employer and employee, each	Self-employed
		Employer and employee, each	Self-employed		
1937–49	$3,000	1.0	.....	$30.00	.....
1950	3,000	1.5	.....	45.00	.....
1951–53	3,600	1.5	2.25	54.00	$81.00
1954	3,600	2.0	3.0	72.00	108.00
1955–56	4,200	2.0	3.0	84.00	126.00
1957–58	4,200	2.25	3.375	94.50	141.75
1959	4,800	2.50	3.75	120.00	180.00
1960–61	4,800	3.0	4.5	144.00	216.00
1962	4,800	3.125	4.7	150.00	225.60
1963–65	4,800	3.625	5.4	174.00	259.20
1966	6,600	4.2	6.15	277.20	405.90
1967	6,600	4.4	6.4	290.40	422.40
1968	7,800	4.4	6.4	343.20	499.20
1969–70	7,800	4.8	6.9	374.40	538.20
1971	7,800	5.2	7.5	405.60	585.00
1972	9,000	5.2	7.5	468.00	675.00
1973	10,800	5.85	8.0	631.80	864.00
1974	13,200	5.85	7.9	772.20	1,042.80
1975	14,100	5.85	7.9	824.85	1,113.90
1976	15,300	5.85	7.9	895.05	1,208.70
1977	16,500	5.85	7.9	965.25	1,303.50
1978	17,700	6.05	8.1	1,070.85	1,433.70
1979	22,900	6.13	8.1	1,403.77	1,854.90
1980	25,900	6.13	8.1	1,587.67	2,097.90
1981	29,700	6.65	9.3	1,975.05	2,762.10
1982	32,400	6.70	9.35	2,170.80	3,029.40
Cumulative:					
1937–82				16,936.49	22,876.50
1972–82				12,765.29	17,385.90

As an indication of the growth of social security taxes in recent years, the maximum an individual who turns 65 next year (1983) could have paid into the system as an employee in the 46-year period 1937–1982 is $16,936, matched by his employer. Of this amount, three-fourths, or $12,765, would have been paid in the period 1972–1982. Even after adjustment for inflation, well over half of such a worker's payments into the program would have

taken place in the last decade. (See Table 41 in Section VIII of this print which details social security taxes over the years for the minimum wage, average, and maximum earner.)

Table 5 below shows how increases in the amount of earnings subject to social security taxes have led to a steady increase in the proportion of workers whose total earnings are taxable. Whereas in 1950, 29 percent of workers in covered employment had earnings in excess of the earnings base, today the figure stands at less than 7 percent. In other words, 93 percent of the workers in covered employment now have their entire earnings taxed under social security.

TABLE 5.—TAXABLE EARNINGS BASE RELATIVE TO THE EARNINGS OF COVERED WORKERS, 1940–82

Calendar year	Taxable earnings base	Average earnings in covered employment	Proportion of covered employees with earnings in excess of earnings base
1940	$3,000	$1,195.00	3.4
1950	3,000	2,543.96	28.9
1960	4,800	4,007.12	28.0
1970	7,800	6,186.24	26.0
1975	14,100	8,630.92	15.1
1980	25,900	12,513.46	8.4
1981	29,700	13,594.27	7.1
1982	32,400	14,495.68	6.6

Source: Social Security Statistical Supplement, 1980, and Office of Research and Statistics, SSA.

WORKERS WITH COVERED EARNINGS

In 1940, approximately 35 million persons worked in employment covered by social security and thereby were paying taxes and gaining eligibility for future benefits. In 1982, 116 million people will work in a full-time, part-time or temporary job covered by social security. The growth in the number of people in employment covered by social security has resulted from overall growth in the labor force and employment, and legislated expansions in the number of occupations covered by social security.

Today, coverage, or participation in social security, is compulsory for most types of employment. However, about 10 percent of jobs are not covered by the program. The majority of these noncovered positions are in the Federal, State and local governments and nonprofit organizations. (Certain self-employed and part-time workers are exempted from the program largely because of their minimal annual net earnings, the irregularity of their work schedules and the administrative difficulty of maintaining their earnings records.)

TABLE 6.—SOCIAL SECURITY COVERAGE [1]

[In millions]

Occupational group	Number of employees (in millions)	Covered	
		Number	Percent
Specifically exempt from coverage:			
Federal civilian employees	2.7	0.2	[2] 7.4
Voluntary coverage:			
State and local government	13.1	9.3	71.0
Nonprofit organization	6.5	5.1	78.5
Mandatorily covered:			
Industry and commerce	77.0	76.8	99.7
Farm [3]	2.0	1.5	75.0
Domestic [3]	1.9	.5	26.3
Self-employed [3]	8.6	6.5	75.6

[1] Estimates based on latest available data (1980). Estimates for some groups, such as non-profit employees, are subject to error due to rapid turnover and the number of employees holding more than one job.
[2] Federal employees who are temporary or who work for quasi-Federal agencies such as TVA are covered.
[3] Mandatorily covered if special minimum coverage requirements met. Special minimum requirements for coverage generally relate to amount of wages earned—for example, domestic employees must receive at least $50 from one employer during a calendar quarter for those wages to be covered.

Source: Office of Research and Statistics, SSA.

Tables 7 and 8 show how both the proportion of employment covered by social security and the proportion of wages subject to social security taxes have increased over the years. As shown in Table 7, the proportion of earnings subject to social security taxes has increased from about 56 percent in 1951 to about 80 percent. This is due to the increase in the taxable earnings base and the expansion of coverage that has taken place over the years.

TABLE 7.—PROPORTION OF EARNINGS TAXABLE BY SOCIAL SECURITY, 1951–81

[Dollars in millions]

Year	Total earnings	Total taxable earnings	Percent taxable earnings
1951	$214,496	$120,770	56.3
1955	254,549	157,540	61.9
1960	319,135	207,000	64.9
1965	418,941	250,730	59.8
1970	614,942	415,600	67.6
1975	896,409	664,750	74.2
1980 [1]	1,472,400	1,174,167	79.7
1981 [1]	1,618,700	1,296,206	80.0

[1] Estimate.

Source: Social Security Annual Statistical Supplement, 1980, and Office of Research and Statistics, SSA.

TABLE 8.—PROPORTION OF JOBS COVERED BY SOCIAL SECURITY, 1939–81

Year	Percent covered
1939	55.1
1949	60.5
1955	82.5
1960	86.2
1965	86.7
1970	89.1
1975	89.2
1980 [1]	89.2
1981 [1]	89.5

[1] Estimate.

Source: Social Security Annual Statistical Supplement, 1980, Historical Statistics of the United States, and Office of Research and Statistics, SSA.

II. The Short-Range Financing Situation

In order to meet social security's benefit obligations, the taxes allocated to each of the programs must be sufficient to cover benefit costs. The matching of revenues and benefits need not be exact in any given year (and rarely is) since the system may meet a deficit by drawing down reserves remaining from prior year surpluses. Over any given period of time, however, each program must have revenues which, when added to its reserves at the start of the period, at least equal expected benefits. In any case where revenues plus reserves fall short of this requirement, the program would be unable to fully meet benefits. This situation arose for the first time in history in November 1982 when the retirement program (OASI) was forced to borrow funds from the disability program (DI) under the temporary interfund borrowing authority. In the absence of new legislation, this inability to fully meet benefit obligations is now expected to continue in the retirement program and, if interfund borrowing is extended, occur ultimately in the entire system (OASDHI) within the next 18 months.

In the short range, the income and outgo of the social security funds are highly sensitive to changes in economic conditions. High rates of unemployment, for example, tend to depress social security tax collections (about $1.8 billion in direct tax revenue loss for each 1 percent increase in unemployment)* while high rates of inflation increase tax collections but even more substantially increase benefit outgo (about $1.7 billion annually for each 1 percent increase in inflation).* To show a range of possible outcomes, the social security Trustees have traditionally used three paths to estimate the short-range status of the trust funds: an optimistic, a pessimistic, and an intermediate path. (In the 1982 Board of Trustees' reports, an additional path was presented: "intermediate II-A," which modifies the usual intermediate path to reflect the somewhat more optimistic economic outlook used by the Administration in preparing the President's FY 1983 Budget.) Congress also receives short-range projections from the Congressional Budget Office (CBO) which provide yet another view of the possible financial condition of social security.

The projections made by the Board of Trustees and by CBO are no "better" or more useful than are their underlying economic assumptions (detailed in Section VIII of this print). The data presented in this print are based on either the intermediate (II-B) or pessimistic (III) assumptions of the Board of Trustees or the projections of CBO. The intermediate (II-B) projections, like those of CBO,

*Estimates provided by Office of the Actuary, Social Security Administration. According to the actuaries, the revenue loss due to unemployment would be about double the amount shown if secondary effects, such as the reduction in hours worked by those remaining employed, are considered.

assume the economy will perform better than in the past 5 years (with CBO assumptions somewhat more optimistic). The pessimistic projections, by contrast, assume the economy's performance will be poor, much like in the recent past. The actual performance of the economy could, of course, be better or worse than any of these projections, with resulting deficits in social security that would be less or more severe than those shown in this print.

CURRENT RESERVES

The reserve balance in the largest of the trust funds—the OASI fund—was approximately $21.5 billion at the start of 1982. This represents 15 percent of the expected $142 billion in payments to be made during the year, or just under 2 months' worth of benefits. The DI and the HI balances stood at $3.0 billion, or 21 percent of expected outgo, and $18.7 billion, or 45 percent of expected outgo, respectively. The amount of OASI funds available to pay November benefits—prior to any borrowing from the other funds—was $11 billion, less than the amount required to pay 1 month's benefits. The reserves of DI and HI were $6.8 billion and $20.8 billion, respectively, at the beginning of October 1982.

STATUS OF INTERFUND BORROWING

Because outgo from the OASI fund continues to exceed income, only the availability of interfund borrowing from DI and HI will allow retirement and survivor benefits to be paid on time in the period November 1982 through June 1983. On November 5, OASI had to borrow—for the first time—$581 million from the disability trust fund to meet full benefits. On December 7, the second transfer to OASI was made from the HI trust fund in the amount of $3.4 billion. According to SSA, such borrowing will total $11.6 billion by the end of the year (under intermediate II-B assumptions), with $6.2 billion coming from the DI trust fund and $5.5 billion coming from the HI trust fund. (Under pessimistic assumptions, the amount borrowed will be $12.4 billion; $6.1 billion from DI and $6.3 billion from HI.)

Since the borrowing authority cannot be used to ensure the payment of benefits beyond June 1983, the OASI program will, in the absence of further legislation, be unable to pay benefits on time beginning in July 1983. This projection holds under the most recent forecasts issued by the Administration (intermediate II-B and pessimistic, updated to take account of the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA)) as well as under the most recent CBO forecast (which also takes into account TEFRA).

An extension of the interfund borrowing authority would permit the timely payment of retirement and survivors benefits through 1983 under all three sets of assumptions. However, the size of the OASI program—amounting to more than 70 percent of OASDHI outlays—and its heavy borrowing demands would soon lead to the insolvency of the entire system. The point at which full benefits—retirement and survivor, disability, and hospital—could not be paid on time would range from early to mid-1984, depending on how the economy performs.

SHORT-RANGE FINANCIAL STATUS

The following tables provide detailed projections (through 1990) of income and outgo for the three social security trust funds under CBO assumptions, Trustees' intermediate II-B assumptions, and Trustees' pessimistic assumptions. Under each of the assumptions, OASI, which has been running a deficit since 1974, is expected to spend more than it takes in (i.e., run an annual deficit) in each year through 1990. Under CBO and Trustees' intermediate assumptions, the annual deficit in OASI is $20-$40 billion; under Trustees' pessimistic assumptions, the annual deficit is considerably higher, exceeding $50 billion in 1987 and reaching $81 billion by 1989. (See Tables 11-13.)

As shown in Table 9, the cumulative deficit in OASI for the period 1983-1989 totals $201.5 billion under Trustees' intermediate assumptions. Counting the $17.3 billion in OASI reserves at the start of 1983, this leaves a cumulative deficiency of resources for OASI of $184.2 billion by the end of 1989. Under pessimistic assumptions, the cumulative deficiency of resources in OASI reaches $332.6 billion. Importantly, these sums do *not* represent the amount of resources which must be raised to keep the system solvent. Actually, the amount required would be *larger* since the system requires a reserve cushion to meet benefits in a timely manner. (Exactly what level of reserves is required is discussed in the next section of this print.)

TABLE 9.—RESOURCE CHANGES DURING CALENDAR YEARS 1983-89 IN SOCIAL SECURITY TRUST FUNDS UNDER PRESENT LAW—VARIOUS ASSUMPTIONS [1]

[In billions]

Fund	Estimated income to be received during calendar year period, 1983-1989	Outgo during calendar year period, 1983-1989	Cumulative deficit 1983-1989 [2]	Resources on hand at start of CY 1983 (reserves)	Net deficiency 1983-1989
	a	b	a−b	c	(a−b)+c
CBO economic assumptions: [3]					
OASI	$1235.3	$1411.7	−$176.4	$18.0	$−158.4
OASI and DI	1513.3	1562.2	−48.9	19.6	−29.3
OASI, DI, and HI	1927.4	1992.7	−65.3	34.3	−31.0
1982 Trustees' II-B assumptions:					
OASI	1261.4	1462.9	−201.5	17.3	−184.2
OASI and DI	1550.9	1623.5	−72.6	18.9	−53.7
OASI, DI, and HI	1982.2	2050.4	−68.2	34.6	−33.6
1982 Trustees' pessimistic assumptions:					
OASI	1242.8	1593.4	−350.6	18.0	−332.6
OASI and DI	1539.2	1766.2	−227.0	19.6	−207.4
OASI, DI, and HI	1971.9	2239.9	−268.0	34.5	−233.5

[1] All estimates take into account the effects of P.L. 97-248, the Tax Equity and Fiscal Responsibility Act of 1982. The Trustees' report estimates assume the continuation of the hospital cost containment provision of TEFRA beyond 1985, the expiration date in present law. CBO estimates do not.

[2] Calculated as income minus outgo, allowing for no reserves.

[3] Preliminary CBO estimates. Estimates for 1982 through 1985 are based on economic assumptions used for the September 1982 CBO budget update. Projections for the remainder of the period are based on economic assumptions representing a quick return to a non-cyclical trend growth path which incorporates the average post-World War II productivity growth rate of approximately 2 percent per year.

The situation is somewhat less severe in the short-range if the trust funds are viewed in combination. This is because the DI and

HI programs have reserves on hand now, and are expected to run annual surpluses through most of the decade. Between 1983 and the end of 1989, the cumulative deficiency of resources for OASDI is $53.7 billion and, for OASDHI, it is $33.6 billion under intermediate assumptions. Under pessimistic assumptions, the cumulative deficiency for OASDI is $207.4 billion and, for OASDHI, it is $233.5 billion. (As before, this allows for no reserve cushion.)

It must be remembered that the trust funds are statutorily separate. Legislation would have to be enacted to permit a surplus in one fund to continue to be used to meet a deficit in another fund. Also, the more favorable short-range situation of the combined funds largely results from very near-term surpluses in the HI trust fund. Over the next 25 years, however, that fund is seriously underfunded. Thus, any shifting of funds from HI to OASI will only aggravate the very serious deficits in the HI program in later years.

Table 10, which condenses the information in Tables 11-13, illustrates the status of the trust funds in a different way. Reserve ratios (i.e., assets at the beginning of the year as a percentage of outgo during the year) are shown for the two cash benefit programs (OASI and DI) combined, and for all 3 programs. Under each set of economic assumptions, reserves as a fraction of outgo (for OASI in combination with DI, as well as with DI and HI), are projected to fall continuously between now and the end of the decade, becoming negative for OASDI in 1985 and for OASDHI sometime between 1985 and 1989. Insolvency would occur some years prior to these dates—in 1984 or 1985 for OASDHI—when reserves first fall below the amount required to pay one month's benefits (about 9 percent of outgo).

TABLE 10.—OASDI AND OASDHI RESERVE RATIOS UNDER VARIOUS ASSUMPTIONS, 1980–1990[1]

Calendar year	Assets at beginning of year as a percentage of outgo during year	
	OASDI	OASDHI
1982 Trustees Report—"II-B" assumptions:		
1980	25	29
1981	18	23
1982	15	22
1983	11	16
1984	3	10
1985	−4	5
1986	−7	3
1987	−9	1
1988	−12	−1
1989	−15	−4
1990	−17	−8

TABLE 10.—OASDI AND OASDHI RESERVE RATIOS UNDER VARIOUS ASSUMPTIONS, 1980–1990[1]—Continued

Calendar year	Assets at beginning of year as a percentage of outgo during year	
	OASDI	OASDHI
1982 Trustees Report—Pessimistic assumptions:		
1980	25	29
1981	18	23
1982	15	22
1983	11	16
1984	1	8
1985	−11	−2
1986	−19	−10
1987	−27	−17
1988	−36	−26
1989	−46	−36
1990	−56	−47
CBO economic assumptions:[2]		
1980	25	29
1981	18	23
1982	15	22
1983	11	16
1984	2	9
1985	−6	3
1986	−8	2
1987	−8	2
1988	−8	0
1989	−9	−3
1990	−10	−8

[1] Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982. (P.L. 97–248). The Trustees report estimates assume the continuation of the hospital cost containment provision of TEFRA beyond 1985, the expiration date in present law. CBO estimates do not.

[2] Preliminary CBO estimates. Estimates for 1982 through 1985 are based on economic assumptions used for the September 1982 CBO budget update. Projections for the remainder of the period are based on economic assumptions representing a quick return to a non-cyclical trend growth path which incorporates the average post World War II productivity growth rate of approximately 2 percent per year.

TABLE 11.—ESTIMATED TRUST FUND OPERATIONS: CBO ECONOMIC ASSUMPTIONS, CY 1980–90 [1]

[In billions]

Calendar year	Income [2]					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	125.4	17.1	142.4	35.7	178.2	126.7	17.7	144.4	30.7	175.1
1982	138.6	17.1	155.7	31.5	187.2	142.0	18.6	160.6	35.6	196.2
1983	134.7	25.2	159.9	42.7	202.6	156.1	19.5	175.6	39.4	215.0
1984	145.3	28.0	173.3	46.8	220.1	169.4	19.7	189.1	44.1	233.2
1985	162.7	35.3	198.0	52.7	250.7	182.9	19.8	202.7	50.1	252.7
1986	176.2	40.3	216.5	60.9	277.4	198.7	20.5	219.2	59.4	278.5
1987	190.3	44.7	235.0	65.7	300.8	215.7	21.6	237.3	69.1	306.4
1988	205.4	49.7	255.1	70.4	325.5	234.8	23.5	258.3	78.8	337.1
1989	220.7	54.8	275.5	74.8	350.3	254.1	25.9	280.0	89.7	369.8
1990	254.5	67.8	322.3	79.0	401.2	274.4	28.3	302.7	102.1	404.8

Calendar year	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$1.8	−$2.0	−$3.8	−$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23.0	35.0	25.0	52.0	29.0
1981	−1.3	−0.6	−1.9	5.0	3.1	21.5	3.0	24.5	18.7	43.3	18.0	21.0	18.0	45.0	23.0
1982	−3.4	−1.5	−4.9	−4.1	−9.0	18.0	1.6	19.6	14.6	34.3	15.1	16.4	15.3	52.6	22.1
1983	−21.4	5.7	−15.7	3.3	−12.4	−3.4	7.3	3.9	17.9	21.8	11.5	8.3	11.2	37.1	15.9
1984	−24.1	8.3	−15.8	2.7	−13.1	−27.6	15.6	−12.0	20.6	8.7	−2.0	37.2	2.1	40.6	9.4
1985	−20.2	15.5	−4.7	2.6	−2.0	−47.8	31.2	−16.6	23.2	6.6	−15.1	78.9	−5.9	41.1	3.4
1986	−22.5	19.8	−2.7	1.5	−1.1	−70.3	51.0	−19.3	24.8	5.4	−24.0	152.2	−7.6	39.1	2.4
1987	−25.4	23.1	−2.3	−3.4	−5.6	−95.6	74.1	−21.5	21.4	−0.1	−32.6	236.1	−8.1	35.8	1.8
1988	−29.4	26.2	−3.2	−8.4	−11.6	−125.0	100.3	−24.7	13.0	−11.7	−40.7	315.8	−8.3	27.1	−0.1
1989	−33.4	28.9	−4.5	−14.9	−19.5	−158.5	129.2	−29.3	−1.9	−31.2	−49.2	387.6	−8.8	14.5	−3.2
1990	−19.9	39.5	19.6	−23.1	−3.6	−178.5	168.7	−9.8	−25.0	−34.8	−57.8	456.8	−9.7	−1.9	−7.7

[1] Includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982, including the expiration of the hospital cost containment provision (Section 101) in 1985. In calendar years when January 1 occurs on a Friday, that year's benefit payment is paid in December of the preceding year; CBO estimates do not take this effect into account. Estimates are preliminary CBO estimates. Estimates for 1982 through 1985 are based on economic assumptions used for the September 1982 CBO budget updates. Projections for the remainder of the period are based on economic assumptions representing a quick return to a non-cyclical trend growth path which incorporates the average post World War II productivity growth rate of approximately 2 percent per year.

[2] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances and certain general fund transfers. Income in fiscal year 1983 reflects interfund transfers as authorized under P.L. 97–123. In order to better illustrate the operations of the trust funds under extended interfund or other types of borrowing or under tax rate reallocation, estimated interest payments owed by a trust fund when it shows a deficit are included as negative values in the income estimates of that trust fund.

TABLE 12.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES' REPORT INTERMEDIATE (II–B) ASSUMPTIONS, CALENDAR YEARS 1980–90 [1]

[In billions]

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	125.4	17.1	142.4	35.7	178.2	126.7	17.7	144.4	30.7	175.1
1982	137.7	16.6	154.3	32.6	187.0	141.9	18.1	160.0	35.6	195.6
1983	136.5	26.1	162.6	44.0	206.6	156.5	19.0	175.5	40.8	216.3
1984	149.2	29.6	178.8	48.4	227.2	173.0	19.9	192.9	46.3	239.2
1985	167.3	37.5	204.8	54.5	259.3	190.9	21.3	212.2	51.9	264.1
1986	180.9	42.0	222.9	63.2	286.1	208.5	22.7	231.2	58.8	290.0
1987	194.5	46.5	241.0	68.5	309.5	226.3	24.2	250.6	66.9	317.5
1988	209.1	51.3	260.4	73.8	334.2	244.5	25.8	270.3	76.0	346.4
1989	223.9	56.5	280.4	78.9	359.3	263.2	27.6	290.8	86.1	376.9
1990	257.7	69.6	326.7	83.8	410.5	282.2	29.4	311.6	96.8	408.4

Calendar year	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−1.8	−2.0	−3.8	0.5	−3.3	22.8	3.6	26.5	13.7	40.2	23	35	25	52	29
1981	−1.3	−0.6	−1.9	5.0	3.1	21.5	3.0	24.5	18.7	43.3	18	21	18	45	23
1982	−4.2	−1.5	−5.7	−3.0	−8.6	17.3	1.6	18.9	15.8	34.6	15	17	15	53	22
1983	−20.0	7.1	−12.8	3.2	−9.6	−2.6	8.7	6.1	19.0	25.0	11	8	11	39	16
1984	−23.8	9.7	−14.1	2.1	−12.0	−26.4	18.4	−8.0	21.0	13.0	−2	44	3	41	10
1985	−23.6	16.2	−7.4	2.6	−4.8	−50.0	34.6	−15.4	23.6	8.2	−14	86	−4	41	5
1986	−27.6	19.2	−8.4	4.4	−3.9	−77.6	53.8	−23.8	28.0	4.3	−24	152	−7	40	3
1987	−31.8	22.2	−9.6	1.6	−7.9	−109.4	76.1	−33.4	29.7	−3.7	−34	222	−9	42	1
1988	−35.4	25.5	−9.9	−2.3	−12.2	−144.9	101.6	−43.3	27.4	−15.9	−45	294	−12	39	−1
1989	−39.3	28.9	−10.4	−7.2	−17.7	−184.2	130.4	−53.7	20.2	−33.6	−55	368	−15	32	−4
1990	−25.1	40.2	15.1	−13.0	2.1	−209.3	170.6	−38.7	7.2	−31.5	−65	443	−17	21	−8

[1] Includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982. Assumes that hospital cost containment provision will be extended beyond 1985, the expiration date in P.L. 97–248 (TEFRA).

1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $11.6 billion would be transferred to OASI in 1982; $6.2 billion from DI and $5.5 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due.

TABLE 13.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES' REPORT PESSIMISTIC ASSUMPTIONS, CALENDAR YEARS 1980–90 [1]

[In billions]

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	125.4	17.1	142.4	35.7	178.2	126.7	17.7	144.4	30.7	175.1
1982	138.4	16.6	155.1	31.8	186.9	141.9	18.1	160.0	35.6	195.6
1983	133.3	25.6	158.9	43.0	201.9	157.7	19.1	176.8	40.8	217.6
1984	142.9	28.7	171.6	47.0	218.6	177.2	20.3	197.5	46.7	244.2
1985	162.3	37.1	199.4	53.7	253.2	199.8	22.2	222.0	54.2	276.3
1986	177.3	42.4	219.7	63.1	282.8	224.0	24.3	248.3	63.7	312.0
1987	192.6	48.0	240.6	69.3	309.9	250.2	26.5	276.6	75.2	351.9
1988	208.8	54.0	262.8	75.3	338.2	277.7	28.9	306.6	88.7	395.3
1989	225.6	60.6	286.2	81.1	367.3	306.8	31.6	338.4	104.2	442.6
1990	262.5	76.1	338.5	86.5	425.0	337.5	34.4	372.0	121.7	493.6

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$1.8	−$2.0	−$3.8	−$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23	35	25	52	29
1981	−1.3	−0.6	−1.9	5.0	3.1	21.5	3.0	24.5	18.7	43.3	18	21	18	45	23
1982	−3.5	−1.5	−5.0	−3.8	−8.7	18.0	1.6	19.6	15.0	34.5	15	17	15	53	22
1983	−24.4	6.5	−17.9	2.2	−15.6	−6.4	8.1	1.7	17.2	18.9	11	8	11	37	16
1984	−34.3	8.4	−25.9	.2	−25.7	−40.7	16.4	−24.3	17.5	−6.8	−4	40	1	37	8
1985	−37.5	14.9	−22.6	−.5	−23.1	−78.2	31.4	−46.8	17.0	−29.9	−20	74	−11	32	−2
1986	−46.7	18.2	−28.5	−.6	−29.1	−124.9	49.5	−75.4	16.4	−59.0	−35	129	−19	27	−10
1987	−57.6	21.5	−36.1	−5.9	−42.0	−182.5	71.0	−111.4	10.5	−101.0	−50	187	−27	22	−17
1988	−68.9	25.1	−43.8	−13.3	−57.1	−251.3	96.1	−155.2	−2.9	−158.1	−66	246	−36	12	−26
1989	−81.2	29.0	−52.2	−23.1	−75.3	−332.6	125.1	−207.4	−26.0	−233.4	−82	305	−46	−3	−36
1990	−75.1	41.6	−33.5	−35.2	−68.6	−407.6	166.8	−240.9	−61.1	−302.0	−99	363	−56	−21	−47

[1] Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982. Assumes that hospital cost containment provision will be extended beyond 1985, the expiration date in P.L. 97–248 (TEFRA).

1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $12.4 billion would be transferred to OASI in 1982, $6.1 billion from DI and $6.3 from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assests would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1988 and later are theoretical, since the fund would be depleted in 1988 under this set of assumptions.

III. Measuring Short-Range Financial Adequacy

Social security financing must provide revenues which are sufficient to meet planned benefit payments. To achieve that goal, Congress needs reliable projections of future income and outgo. In addition, a margin for error must be provided so that the system can accommodate fluctuations in income or outgo and so that there will be time for Congressional action in the event the projections prove seriously inaccurate.

There is no hard and fast rule as to what is either the minimum or the appropriate trust fund reserve level. The problem is that the financial shortfall can be defined in many ways depending upon what level of resources one considers sufficient to meet the system's needs. For instance, aiming at a reserve of one month's worth of assets (9 percent of annual expenditures) so that monthly benefits can be met on time requires far less in trust fund assets than a 3-month (25 percent) or 6-month (50 percent) reserve cushion. Furthermore, different sets of economic assumptions show that different amounts are needed to achieve the same reserve percentage. Finally, how much is needed depends upon how fast the reserve cushion is to be built up.

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

The 1972 amendments required a shift to dynamic estimates of future income so as to account for the financing of the automatic cost-of-living adjustment of benefits enacted at that time. These changes made the system more sensitive to changes in economic conditions and therefore made estimates of its future financial condition much more uncertain.

The social security actuaries and other experts (including CBO) generally agree that if reserve levels drop below 13 percent at the beginning of a calendar year, "the probable inability of the fund to pay benefits when due becomes imminent." Actuaries consider 13 percent the critical point for the OASDI trust funds, because even a small error in the estimates or unforeseen fluctuations in the flow of income and outgo could cause the reserve ratio to drop below 8 to 9 percent, which is the amount needed to assure that monthly benefits can be paid. The actuaries point out that a minimum 4 to 5 percentage point spread between the potential danger

level (13 percent) and the actual level of insolvency (8 to 9 percent) is needed in order to avoid cash flow problems. A larger reserve (about 17 percent) is needed at the start of a fiscal year in order to assure that the fund can weather the initial October through December quarter. During that quarter, revenues lag because earnings of high income workers have reached the taxable wage base (and therefore their tax payments have ceased for the year) and benefits are relatively high because of the July cost of living increase.

As illustrated in Table 10, the combined reserves of OASDHI will amount to 16 percent of outgo at the start of 1983. Under each of the 3 sets of assumptions presented, the system's reserves fall below 13 percent of outgo sometime during the second half of 1983.

Considerably larger reserve levels than 9–13 percent are needed if Congress is to be allowed a reasonable amount of time for legislative action to prevent trust fund exhaustion during periods of continued annual deficits, like the present. In the early 1970's the standard of adequacy in the short-term was a reserve level of 75 to 125 percent of annual outgo, or the equivalent of 9–15 months of benefit payments. For example, the 1971 Advisory Council recommended a reserve goal of 100 percent of annual outgo.

The social security system has only recently operated at marginal reserve levels. As illustrated in Tables 14 and 15, reserves have historically been large and adequate. It was not until 1970 that the combined reserves of the OASDHI funds fell below 100 percent of annual expenditures. Then, in the next 5 years, the reserve ratio fell by 26 percentage points, and by 1981, reserves had fallen another 46 percentage points to a level of 23 percent of outgo. This sharp deterioration in reserves between 1975 and 1981 resulted despite new legislation which substantially increased income to the system during this period. (See Section V for estimates of effects of recent legislation.)

Evidently, if one expected Congress to take action annually on social security, as it does with appropriation bills for other activities of the Government, then a 25-percent reserve based on "best guess" (intermediate) economic assumptions would be ample, for it is not likely that even under the most adverse economic conditions, such a reserve would be depleted in a single year. However, if it is desirable for the system to be self-sufficient for many years into the future, larger reserves must be accumulated.

TABLE 14.—HISTORICAL OASDHI RESERVE RATIOS, 1950–83

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

Calendar year	Trust funds				
	OASI and DI combined	OASI	DI	HI	OASDHI
1950	1,156	1,156			1,156
1955	405	405			405
1960	186	180	304		186
1965	110	109	121		110
1970	103	101	126	47	95

TABLE 14.—HISTORICAL OASDHI RESERVE RATIOS, 1950–83—Continued

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

Calendar year	Trust funds				
	OASI and DI combined	OASI	DI	HI	OASDHI
1971	99	94	140	54	93
1972	93	88	140	47	87
1973	80	75	125	40	76
1974	73	68	110	69	73
1975	66	63	92	79	69
1976	57	54	71	77	60
1977	47	47	48	66	50
1978	37	39	26	57	40
1979	30	30	30	54	34
1980	25	23	35	52	29
1981	18	18	21	45	23
1982	15	15	17	53	22
1983 [1]	11	8	11	39	16

[1] Estimated using Trustees' intermediate (II–B) assumptions.
Source: 1982 OASDI and HI Trustees' Reports.

TABLE 15.—HISTORICAL LEVELS OF OASDHI TRUST FUND ASSETS, NUMBER OF MONTHS' WORTH OF BENEFITS ON HAND

Calendar year	Number of months' worth of expenditures on hand at beginning of year		
	OASDI	HI	OASDHI
1950	138.7	.....	138.7
1960	22.3	.....	22.3
1965	13.2	.....	13.2
1970	12.4	5.6	11.5
1975	8.0	9.4	8.3
1980	2.9	6.2	3.5
1982	1.8	6.3	2.6

Further insight can be gained into the adequacy of various reserve levels by considering the fact that at the time of the 1977 Amendments, it was estimated that the changes made would assure a minimum OASDI reserve ratio of at least 25 percent of annual outgo in the near term—a reserve of 3 months' benefit payments under Trustees' intermediate assumptions. As shown in Tables 16 and 17, that projection proved wide of the mark and did not provide enough margin to avoid the need for further legislation

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in the 96th and 97th Congresses. The legislation since 1977 provided substantial additional financing for the system both through benefit reductions and tax increases. (See Section V of this print for revenue and savings estimates.)

Whereas in 1977 it was believed that the legislation enacted that year would allow trust fund reserves as a fraction of outgo to rise continuously through the 1980's, and subsequent legislation further improved the financing of the system, reserves are now expected to fall continuously.

This recent experience has shown that while a reserve ratio of 15, 20, or 25 percent may appear to be a safe planning level, it would not take much of a deviation from the assumptions to cause financial problems to arise again quickly.

TABLE 16.—COMPARISON OF OASDHI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS [1]

[In percent]

Calendar years	OASDHI reserves at beginning of year as percent of outgo during the year			
	1977 estimate	1982 CBO	1982 trustees' II-B assumptions	1982 trustees' pessimistic assumptions
1980	29	29	29	29
1981	38	23	23	23
1982	34	22	22	22
1983	39	16	16	16
1984	42	9	10	8
1985	43	3	5	−2
1986	47	2	3	−10
1987	50	2	1	−17

[1] All 1982 estimates include the effects of the Tax Equity and Fiscal Responsibility Act of 1982. The Trustees' report HI estimates assume the continuation of the hospital cost containment provision of TEFRA beyond 1985, the expiration date in present law. CBO estimates do not.

TABLE 17.—COMPARISON OF OASDI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS [1]

[In percent]

Calendar years	OASDI reserves at beginning of year as percent of outgo during the year			
	1977 estimate	1982 CBO	1982 trustees' II-B assumptions	1982 trustees' pessimistic assumptions
1980	26	25	25	25
1981	25	18	18	18
1982	30	15	15	15
1983	36	11	11	11
1984	41	2	3	1
1985	45	−6	−4	−11

TABLE 17.—COMPARISON OF OASDI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS [1]—Continued

[In percent]

Calendar years	OASDI reserves at beginning of year as percent of outgo during the year			
	1977 estimate	1982 CBO	1982 trustees' II-B assumptions	1982 trustees' pessimistic assumptions
1986	52	−8	−7	−19
1987	59	−8	−9	−27

[1] All 1982 estimates include the effects of the recently enacted Tax Equity and Fiscal Responsibility Act of 1982.

HOW MUCH MONEY DOES THE SYSTEM NEED?

The following tables illustrate the cumulative amount of new resources the cash benefits programs (OASDI) and the system (OASDHI) would need to reach various levels of reserves by the beginning of 1986 and, alternatively, by the beginning of 1990. The tables show these amounts under three sets of economic assumptions (the 1982 Trustees' intermediate and pessimistic assumptions, and CBO assumptions). Alternatively, they show the approximate amounts required in outlay reductions to attain various levels of reserves. (Actually, if the system's financial condition were improved through benefit reductions, with no new income-producing measures, the aggregate amount of such reductions would be somewhat less than the resources required through revenue measures alone. See Tables 49 and 50 in section VIII of this print.) The tables below presume that interfund borrowing is reauthorized through the decade, either between OASI and DI or between all three trust funds.

TABLE 18.—ADDITIONAL RESOURCES REQUIRED IN THE NEAR-TERM TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS [1]

[In billions]

	Additional resources required [2]		
	CBO	1982 trustees' intermediate (II-B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1986:			
9 percent (1 mo)	$18.5	$16	$52
13 percent	29.6	26	62
15 percent	35.2	31	67
20 percent	49.1	44	83
30 percent	77.0	70	108
50 percent (6 mo)	132.7	123	163

TABLE 18.—ADDITIONAL RESOURCES REQUIRED IN THE NEAR-TERM TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS [1]—Continued

[In billions]

	Additional resources required [2]		
	CBO	1982 trustees' intermediate (II-B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	67.6	59	225
13 percent	83.8	70	239
15 percent	91.9	75	244
20 percent	112.2	93	264
30 percent	152.6	123	301
50 percent (6 mo)	233.6	190	378

[1] Table includes the effects of Tax Equity and Fiscal Responsibility Act of 1982. The Trustees' HI estimates assume the continuation of the hospital cost containment provision of TEFRA beyond 1985, the expiration date in present law. CBO estimates do not. Target reserve ratios are attained in even annual increments.

[2] CBO estimates and Trustees estimates are not directly comparable because CBO numbers include added interest on larger trust fund balances, while Trustees' numbers do not. Also, the Trustees' estimates assume the continuation of a hospital cost containment provision in P.L. 97-248 beyond 1985, the expiration date contained in present law.

TABLE 19.—ADDITIONAL RESOURCES REQUIRED IN THE NEAR-TERM TO BRING OASDI RESERVES UP TO CERTAIN LEVELS [1]

[In billions]

	Additional resources required [2]		
	CBO	1982 trustees' intermediate (II-B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1986:			
9 percent (1 mo)	$36.3	$32	$60
13 percent	45.1	39	68
15 percent	49.5	43	72
20 percent	60.4	54	84
30 percent	82.3	74	105
50 percent (6 mo)	126.2	115	148
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	56.6	62	187
13 percent	68.7	70	195
15 percent	74.7	74	200
20 percent	89.9	88	216
30 percent	120.1	113	246
50 percent (6 mo)	180.7	163	303

[1] Table includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982. Target reserve levels are attained in even annual increments.

[2] CBO estimates and Trustees' estimates are not directly comparable because CBO numbers include added interest on larger trust fund balances, while Trustees' numbers do not.

Table 18 shows the condition of the overall system. It can be seen that, depending on the economic assumptions, anywhere from $75 billion to $244 billion in new resources is required between 1983 and 1989 to achieve a relatively minimum reserve level of 15 percent for OASDHI at the start of 1990. Under intermediate assumptions, $75 billion is required; under CBO assumptions, $92 billion is required. $120 billion to $150 billion would be required to reach a safer reserve level of, say, 30 percent at the start of 1990, under intermediate II-B or CBO assumptions. Were pessimistic conditions to prevail, however, these sums would not provide even the minimum reserve level of 9 percent.

It is important to note that even if HI is omitted from consideration, the needs of the cash benefit programs are not much different than if all three programs are combined. The resource needs are higher in the next few years (as the opportunity to borrow from HI is foregone), but lower in the latter part of the decade (as the condition of HI deteriorates). As illustrated in Table 19, a 15-percent OASDI reserve level at the beginning of 1990 would require about $75 billion in new resources over the period 1983–1989 under intermediate or CBO assumptions, and $200 billion under pessimistic assumptions. A 30-percent reserve level under intermediate or CBO assumptions would require $113–$120 billion.

The National Commission on Social Security Reform tentatively agreed (on November 11) that OASDI requires $150–$200 billion in new resources (over the period 1983–89) to ensure solvency through the decade. This is roughly the amount of resources required to achieve a 15 percent reserve goal under pessimistic assumptions. If the economy performs better, larger reserves would accumulate. For illustrative purposes, Table 20 shows the year-by-year needs of the system (OASDI and OASDHI) for this reserve goal under Trustees' intermediate and pessimistic assumptions.

TABLE 20.—ESTIMATED NEW RESOURCES REQUIRED TO MAINTAIN A TRUST-FUND RATIO OF 15 PERCENT DURING 1983–89, UNDER ALTERNATIVES II–B AND III [1]

[In billions]

Calendar year	Intermediate (II–B) assumptions		Pessimistic (III) assumptions	
	OASDI	OASDHI	OASDI	OASDHI
1983	$22	$10	$26	$17
1984	14	14	25	27
1985	7	6	20	23
1986	7	5	24	27
1987	8	9	30	38
1988	8	13	34	49
1989	8	17	40	63
1983–89	74	75	200	244

[1] The "trust-fund ratio" is the ratio of the reserve balances in the trust funds at the start of the year to the outgo in the next 12 months. The figures in this table do not include the repayment of any loans from the HI Trust Fund to the OASI Trust Fund in 1982 (about $5 billion). Figures take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982.

IV. The Long-Range Financing Situation

Because social security is broadly viewed as a program for which those who pay the taxes are earning the right to future benefits, Congress has traditionally required long-range cost estimates and has set future tax rates with a view to assuring that the income of the system will be sufficient to cover outgo. Under current procedures, the long-range actuarial analysis of the cash benefit programs (OASI and DI) covers a 75-year period—generally long enough to cover the anticipated retirement years of those currently in the work force. Since the enactment in 1965 of the Hospital Insurance program, long-range actuarial analyses of that program have also been made, but official HI estimates are made only over a 25-year period.*

Whereas in the short-range, adverse economic factors (especially the lack of real wage growth) has been largely responsible for the poor financial condition of social security, demographic changes will be very important in the long-range. Fertility and mortality rates, for example, interact to determine the mix of beneficiaries (or retirees) to workers and the longevity of the beneficiary population. The Board of Trustees reports typically provide a range of possible outcomes by projecting long-range costs and income on the basis of three different sets of assumptions—optimistic, intermediate, and pessimistic. The 1982 report also included a fourth path, intermediate (II-A), based on the President's FY 1983 budget assumptions. (The underlying economic and demographic assumptions are included in Section VIII of this print.) While the long-range income and outgo projections illustrated in this section are based on the actuaries' intermediate assumptions, as these are the ones Congress generally relies on for policymaking, it should be noted that the long-term cost of OASDI varies by a factor of 70 percent as between optimistic and pessimistic projections, from a surplus of 1.30 percent of payroll to a deficit of 6.46 percent.

MEASUREMENT OF LONG-RANGE STATUS

The long-range status of the social security trust funds is ordinarily expressed in terms of "percent of taxable payroll" rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of "one percent of taxable payroll", this means that the social security tax rates now in the law would have to be increased by .5 percentage

*The Finance Committee Staff requested 75-year estimates from HCFA, but they were not provided. HI estimates presented in this section extending beyond the 25-year period were provided by the National Commission on Social Security Reform staff and are based on the assumptions that after 2006 hospital costs will rise at the same rate as wages and that costs will be reduced by 10½ percent in each future year as a result of the hospital cost containment provision in P.L. 97-248.

points on the employee and employer, each, in order to pay for the benefits due under present law. (Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions.) If the program is projected to have a deficit of 1.8 percent of taxable payroll and expenditures are projected to be, say, 10 percent of taxable payroll, then, under the given set of assumptions, 18 percent (1.8 divided by 10) of expenditures could not be met with that tax schedule. At the present time, total taxable payroll amounts to approximately $1.4 trillion so that in 1982 terms, 1.8 percent of payroll (the estimated long-range deficit of the cash benefits program) represents about $25 billion. In 1983, total taxable payroll is expected to be $1.5 trillion, with each percent of payroll amounting to $15 billion. When the entire program (including medicare) is considered, the average annual social security deficit over the next 75 years, expressed in 1983 terms, is somewhat above $100 billion per year.

The long-range financial condition of the system is summarized in the table below.

TABLE 21.—LONG-RANGE STATUS OF THE OASDHI TRUST FUNDS

[Percent of taxable payroll]

	25-year periods			75-year period
	1982–2006	2007–2031	2032–2056	1982–2056
OASDI:				
Income	12.01	12.40	12.40	12.27
Outgo	11.35	14.08	16.79	14.07
Difference	.66	−1.68	−4.39	−1.80
HI:				
Income	2.86	2.90	2.90	2.89
Outgo	4.34	8.78	11.19	8.10
Difference	−1.48	−5.88	−8.29	−5.21
OASDHI:				
Income	14.87	15.30	15.30	15.16
Outgo	15.69	22.86	27.98	22.17
Balance	−.82	−7.56	−12.68	−7.01

Source: SSA, HCFA, based on 1982 Trustees' intermediate II–B assumptions, adjusted to reflect enactment of the Tax Equity and Fiscal Responsibility Act of 1982 for 1982–2006, assuming extension of hospital cost containment provision of TEFRA beyond 1985, the expiration date in present law. HI estimates for 2007 to 2056 prepared by the staff of the National Commission on Social Security Reform under assumptions that hospital costs will rise at the same rate as average wages and that TEFRA will reduce the cost of the HI program by 10½ percent each year.

OASDI

Tables 21 and 22 provide estimates of the long-range status of the social security cash benefit programs over the next 75 years (based on the intermediate (II–B) assumptions used in the 1982

Trustees' report updated to take account of the 1982 Tax Equity and Fiscal Responsibility Act). The tables shows that the cash benefits trust funds, despite their deficit in the next few years, are projected to run a surplus over the next 25 years. In 1982, for example, the cost of OASDI is comparable to a tax rate of 11.76 percent (employee and employer combined), and the actual tax rate is 10.80 percent—a shortfall of 0.96 percentage points. Beginning in 1990, however, and continuing over the next two decades, the situation reverses and income substantially exceeds outgo. This is partly a result of increases in social security taxes scheduled under present law, partly a result of the fact that the cohort of workers retiring at that time were born in the 1930's and early 1940's, low birth rate years, and partly because of the assumption of a much improved economic picture.

TABLE 22.—COMBINED OASDI OUTGO AS A PERCENT OF TAXABLE PAYROLL AND COMPARISON WITH SCHEDULED TAX RATE [1]

[In percent]

Calendar year	OASDI outgo	Tax rate	Difference	Trust fund ratio
1981	11.30	10.70	−0.60	18
1982	11.76	10.80	−.96	15
1983	11.64	10.80	−.84	11
1984	11.59	10.80	−.79	3
1985	11.66	11.40	−.26	−4
1986	11.68	11.40	−.28	−7
1987	11.69	11.40	−.29	−9
1988	11.66	11.40	−.26	−12
1989	11.63	11.40	−.23	−15
1990	11.62	12.40	.78	−17
1991	11.57	12.40	.83	−12
1992	11.52	12.40	.88	−5
1993	11.49	12.40	.91	2
1994	11.44	12.40	.96	9
1995	11.40	12.40	1.00	17
1996	11.33	12.40	1.07	26
1997	11.24	12.40	1.16	35
1998	11.16	12.40	1.24	45
1999	11.08	12.40	1.32	56
2000	11.02	12.40	1.38	67
2001	10.96	12.40	1.44	79
2002	10.91	12.40	1.49	92
2003	10.89	12.40	1.51	105
2004	10.89	12.40	1.51	118
2005	10.94	12.40	1.46	131
2010	11.52	12.40	.88	179

TABLE 22.—COMBINED OASDI OUTGO AS A PERCENT OF TAXABLE PAYROLL AND COMPARISON WITH SCHEDULED TAX RATE [1]—Continued

[In percent]

Calendar year	OASDI outgo	Tax rate	Difference	Trust fund ratio
2015	12.81	12.40	−.41	179
2020	14.44	12.40	−2.04	127
2025	15.96	12.40	−3.56	33
2030	16.82	12.40	−4.42	(2)
2035	17.01	12.40	−4.61	(2)
2040	16.79	12.40	−4.39	(2)
2045	16.65	12.40	−4.25	(2)
2050	16.71	12.40	−4.31	(2)
2055	16.80	12.40	−4.40	(2)
2060	16.80	12.40	−4.40	(2)
25-year averages:				
1982–2006	11.35	12.01	.66	
2007–31	14.08	12.40	−1.68	
2032–56	16.79	12.40	−4.39	
75-year average:				
1982–2056	14.07	12.27	−1.80	

[1] Based on 1982 Trustees Report, alternative II–B assumptions, including effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] The fund is projected to be exhausted and not to recover before the end of the projection period.

As shown in Table 22, OASDI reserves as a fraction of outgo are projected to rise continuously from 2 percent in 1993 to 179 percent in 2010. Over the 25-year period 1982–2006, this translates into a surplus of 0.66 percent, or in 1983 dollars, about $10 billion per year.

The likelihood of surpluses in the 1990's.—It is extremely important to note that under none of the official projections presented in this print will the social security system as a whole—OASI, DI, and HI—be in surplus during the 1990's. Even under CBO assumptions, the most optimistic of the 3 presented, deficits in HI are projected beginning in 1987. These deficits are then expected to get progressively larger—large enough under intermediate assumptions to render the rest of the system insolvent during the 1990's if interfund borrowing were in place.

Even apart from the possible need to divert resources to HI, how likely is it that OASI and DI will run a surplus in the 1990's, as is now projected under Trustees' intermediate and CBO assumptions? Continued sluggish economic performance during the 1990's would eliminate surpluses in OASDI and, indeed, could result in substantial deficits. To illustrate this, using intermediate assumptions, but simply modifying the assumption pertaining to real wage growth (reducing it from 1.5 percent to 0.75 percent beginning in 1989) would virtually eliminate projected surpluses. Further reducing the real wage growth assumption to 0.5 percent would result in deficits on the order of 0.19 percent of payroll, or about $3 billion per year.

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(It should be noted that actual real wage growth averaged −1.2 percent over the period 1977 to 1981 and −0.5 percent per year over the period 1970 to 1981.) Evidently, while the Trustees' intermediate projections of reserve accumulation in the 1990's is one reasonable forecast, there is a reasonable probability that the OASDI trust funds could be in considerably poorer financial condition.

Even under the intermediate (II-B) projections which show surpluses in OASDI in the 1990's and through the balance of the 25-year period, OASDI is projected to run large deficits beginning around 2015. As shown in Table 22, the cost of OASDI rises sharply after the turn of the century—about 50 percent between 2001 and 2030—reaching 17 percent of payroll by 2035. (In other words, the combined employee-employer tax rate in 2035 would have to be 17 percent in order to finance retirement, survivors, and disability benefits alone. The cost of medicare would be another 11.17 percent in addition to this.) Under intermediate assumptions, the OASDI deficit becomes so large that the trust fund ratio is projected to fall in a 10-year period from 179 percent in 2015 to 33 percent in 2025, and reserves would be totally exhausted a few years later.

Over the next 75 years, the cash benefits programs have a deficit of 1.80 percent of payroll. This means that—under the actuaries' best current estimates—social security taxes would have to be increased by a combined 1.80 percentage points (or $27 billion in 1983 terms) for each of the next 75 years. This represents a total deficit of $2.0 trillion over the next 75 years. A deficit of 1.8 percent, when compared to outgo of 14.07 percent, means that about 13 percent of future benefits (1.8 divided by 14.07) over the next 75 years cannot be paid under current law.

If the deficit in the OASDI program is not addressed in the near term, it will become substantially larger on an annual basis in the future. For the last one-third of the 75-year period, for example, there is an average annual deficit of 4.39 percent of taxable payroll ($66 billion per year in 1983 terms). About 26 percent of benefits during the years 2032–2056 cannot be paid under current law.

HI

Unlike the medium-range OASDI financial situation, the 25-year forecast for the HI program is very adverse. As Table 23 shows, the HI program is projected to take in revenues that on average are equal to 2.86 percent of taxable payroll, while outgo on average will equal 4.34 percent of taxable payroll. Thus, the HI program is projected to have a medium-range deficit of 1.48 percent of taxable payroll, or more than twice the surplus projected for OASDI. In 1983 dollars, this is equal to about $22 billion per year, amounting to $560 billion over the 25-year period.

As for the longer term, the HI deficits become progressively more severe. The cost of the program rises from 5.38 percent of taxable payroll in 2000 to 10.76 percent in 2030, whereas income is stable at 2.90 percent of payroll (the combined employee-employer tax rate in the law). Over the 75-year period, the resulting deficit is projected to be 5.21 percent of taxable payroll—in 1983 dollars, about $80 billion a year or $6 trillion in total.

OASDHI COMBINED

When the OASDI and HI trust funds are considered together, the programs become unable to pay benefits in 1984, under all assumptions, and the system does not recover financially during the 75-year projection period. As shown in Table 24, OASDHI has a deficit equal to .82 percent of taxable payroll over the 25-year period 1982–2006. On an aggregate basis, therefore, the three programs supported by the payroll tax are insufficiently financed over the next 25 years, and the system in aggregate would be insolvent.

When the 75-year deficit in HI is combined with the deficit in OASDI, the social security system's long-range deficit averages 7.01 percent of taxable payroll. In 1983 dollars, this is equivalent to $105 billion a year or $8 trillion over the entire 75-year period. This would require a 3.5 percentage point increase in the schedule of social security taxes, for employer and employee, each, or a comparable reduction in the cost of the programs. The longer these changes are delayed, the larger the necessary tax increases or outlay reductions will become. Without substantial advance funding, the total cost of the 3 social security programs is projected to necessitate a 28-percent payroll tax by 2035, in contrast to the 15.3 percent tax rate scheduled in the law for that time.

Evaluating the magnitude of the OASDHI deficit in terms of the proportion of benefits that can not be paid under present law, about 32 percent of OASDHI benefits (7.01 divided by 22.17) are unfinanced over the next 75 years.

TABLE 23.—HI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULED TAX RATE (INTERMEDIATE II–B ASSUMPTIONS) [1]

[Percent of taxable payroll]

Calendar year	HI outgo	Tax rate	Difference	Reserve ratio
1981	2.39	2.6	+.21	45
1982	2.97	2.6	−.37	53
1983	2.58	2.6	+.02	39
1984	2.67	2.6	−.07	41
1985	2.74	2.7	−.04	41
1986	2.86	2.9	+.04	40
1987	3.01	2.9	−.11	42
1988	3.17	2.9	−.27	39
1989	3.34	2.9	−.44	32
1990	3.51	2.9	−.61	21
1991	3.69	2.9	−.79	7
1992	3.87	2.9	−.97	(2)
1993	4.09	2.9	−1.19	.....
1994	4.27	2.9	−1.37	.....
1995	4.47	2.9	−1.57	.....
1996	4.66	2.9	−1.76	.....
1997	4.85	2.9	−1.95	.....

TABLE 23.—HI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULED TAX RATE (INTERMEDIATE II–B ASSUMPTIONS) [1]—Continued

[Percent of taxable payroll]

Calendar year	HI outgo	Tax rate	Difference	Reserve ratio
1998	5.05	2.9	−2.15	
1999	5.21	2.9	−2.31	
2000	5.38	2.9	−2.48	
2001	5.55	2.9	−2.65	
2002	5.72	2.9	−2.82	
2003	5.90	2.9	−3.00	
2004	6.09	2.9	−3.19	
2005	6.29	2.9	−3.39	
2010	7.20	2.9	−4.30	
2015	7.94	2.9	−5.04	
2020	8.89	2.9	−5.99	
2025	9.93	2.9	−7.03	
2030	10.76	2.9	−7.86	
2035	11.17	2.9	−8.27	
2040	11.29	2.9	−8.39	
2045	11.21	2.9	−8.31	
2050	11.19	2.9	−8.29	
2055	11.17	2.9	−8.27	
25-year averages:				
1982–2006	4.34	2.86	−1.48	
2007–2031	8.78	2.90	−5.88	
2032–56	11.19	2.90	−8.29	
75-year average:				
1982–2056	8.10	2.89	−5.21	

[1] Based on 1982 Trustees' report, alternative II–B assumptions, including effects of the Tax Equity and Fiscal Responsibility Act of 1982 for 1982–2005 assuming no sunset of the hospital cost containment provision contained in Section 101 of TEFRA. Also reflects cost of interfund loan from HI to OASI of $5.5 billion in CY 1982. The staff of the National Commission on Social Security Reform extended the projections from 2006 to 2056 under assumptions that hospital costs will rise at the same rate as average wages and that TEFRA will reduce the cost of the HI program by 10½ percent each year.

[2] The trust fund is depleted in 1991.

TABLE 24.—COMBINED OASDHI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULED TAX RATE (INTERMEDIATE II–B ASSUMPTIONS) [1]

[Percent of taxable payroll]

Calendar year	OASDHI outgo	Tax rate	Difference	Reserve ratio
1981	13.69	13.30	−.39	28
1982	14.73	13.40	−1.33	24
1983	14.22	13.40	−.82	19
1984	14.26	13.40	−.86	14
1985	14.40	14.10	−.30	9

TABLE 24.—COMBINED OASDHI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULED TAX RATE (INTERMEDIATE II-B ASSUMPTIONS) [1]—Continued

[Percent of taxable payroll]

Calendar year	OASDHI outgo	Tax rate	Difference	Reserve ratio
1986	14.54	14.30	−.24	6
1987	14.70	14.30	−.40	4
1988	14.83	14.30	−.53	2
1989	14.97	14.30	−.67	−1
1990	15.13	15.30	+.17	−5
1991	15.26	15.30	+.04	−5
1992	15.39	15.30	−.09	NA
1993	15.58	15.30	−.28	NA
1994	15.71	15.30	−.41	NA
1995	15.87	15.30	−.57	NA
1996	15.99	15.30	−.69	NA
1997	16.09	15.30	−.79	NA
1998	16.21	15.30	−.91	NA
1999	16.29	15.30	−.99	NA
2000	16.40	15.30	−1.10	NA
2001	16.51	15.30	−1.21	NA
2002	16.63	15.30	−1.33	NA
2003	16.79	15.30	−1.49	NA
2004	16.98	15.30	−1.68	NA
2005	17.23	15.30	−1.93	NA
2010	18.72	15.30	−3.42	NA
2015	20.75	15.30	−5.45	NA
2020	23.33	15.30	−8.03	NA
2025	25.89	15.30	−10.59	NA
2030	27.58	15.30	−12.28	NA
2035	28.18	15.30	−12.88	NA
2040	28.08	15.30	−12.78	NA
2045	27.86	15.30	−12.56	NA
2050	27.90	15.30	−12.60	NA
2055	27.97	15.30	−12.67	NA
25-year averages:				
1982–2006	15.69	14.87	−.82	NA
2007–31	22.86	15.30	−7.56	NA
2032–56	27.98	15.30	−12.68	NA
75-year average:				
1982–2056	22.17	15.16	−7.01	NA

[1] Based on 1982 Trustees' report, alternative II-B assumptions, including effects of the Tax Equity and Fiscal Responsibility Act of 1982 for 1982–2005, assuming no sunset of the hospital cost containment provision contained in Section 101 of TEFRA. The staff of the National Commission on Social Security Reform extended the HI projections from 2006 to 2056 under assumptions that hospital costs will rise at the same rate as average wages and that TEFRA will reduce the cost of the HI program by 10½ percent each year.

LONG-RANGE STANDARD OF FINANCIAL ADEQUACY

As discussed earlier, the long-range status of the trust funds is estimated on the basis of a variety of economic and demographic factors. Relatively small changes in demographics, moreover, have large long-term consequences. Consider, for example, the fertility rate, which affects the size of the work force that pays social security taxes and, thus, the tax rate required to finance the system. Under intermediate (II-B) assumptions, the ultimate fertility rate (reached in 2005) is 2.1 children per woman. Simply decreasing the fertility assumption to 2.0, while maintaining other II-B assumptions; would increase the deficit by about 15 percent, or 0.27 percent of taxable payroll. Decreasing the fertility rate further to 1.7, as under the pessimistic assumptions in the 1982 Trustees' reports, would increase the deficit by two-thirds. Conversely, increasing the rate to 2.4, as under the optimistic assumptions, would eliminate over 40 percent of the OASDI deficit.

It is unlikely, of course, that the actuaries will succeed in projecting a path which exactly predicts the net outcome of all the various elements over a 75-year period. However, the intermediate projections do represent the actuaries' "best estimate" as of any point in time and are generally considered an acceptable gauge of long-range soundness. They provide a valuable guide to trends which indicate an imbalance in the system, allowing Congress to make necessary corrections gradually and thus avoid sudden shocks which the system would have difficulty absorbing, and to which taxpayers and beneficiaries would have difficulty responding.

The system is considered to be sound in the long-range if, under Trustees' intermediate assumptions, income is sufficient over the 75-year period to meet outgo, i.e., if the long-range deficit is zero. Social security currently falls substantially short of this standard with OASDI running a long-range deficit of 1.8 percent of taxable payroll and OASDHI running a long-range deficit of about 7 percent. As a result, the average cost of the cash benefits programs over the 75-year period is estimated to be 13 percent greater than the programs' income; the average cost of the system (OASI, DI, and HI) is estimated to be about 46 percent greater than the system's income.

V. Savings and Revenue Impact of Recent Legislation

When considering the feasibility of alternative proposals for restoring the financial soundness of social security, the impact of measures already adopted by Congress in the last 5 years should not be overlooked. Tables 25 and 26 reveal that legislation enacted in 1977, 1980, 1981 and 1982 substantially increased revenues to the system, generated some short-range savings, and yet failed to restore solvency on either a short- or long-range basis. As illustrated in Table 26, some $467 billion in new revenues will have been raised in the period 1979–90 as a consequence of this legislation, $438 billion of which will result from the 1977 amendments.

TABLE 25.—ORIGINAL SHORT-RANGE ESTIMATES OF REDUCTION IN OASDI AND HI BENEFIT PAYMENTS DUE TO AMENDMENTS OF 1977, 1980, 1981, AND 1982

[In billions]

Calendar years	Estimates of net reduction in benefit payments, made at time of enactment [1]				
	1977 amendments [2]	1980 amendments	1981 reconciliation	1981 minimum benefit bill	1982 Tax Act
1978	$0.4				
1979	.5				
1980	.8	(3)			
1981	1.4	$0.2	$0.1		
1982	1.7	.7	3.5	−$0.9	
1983	2.6	1.1	4.7	−1.3	$0.8
1984	3.7	1.4	5.8	−1.3	1.9
1985	4.9	1.8	6.4	−1.3	3.7
1986	6.4	2.2	6.9	−1.3	4.7
1978–86	21.6	7.4	27.4	−6.1	11.1

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

[2] For 1977, Public Law 95–216 (Social Security Amendments of 1977); for 1980, figures represent the sum of the estimates made for P.L. 96–265 (the Social Security Disability Amendments of 1980), P.L. 96–473 (an act with respect to the retirement test), and P.L. 96–499 (the Omnibus Reconciliation Act of 1980); for 1981, P.L. 97–35 (the Omnibus Reconciliation Act of 1981) and P.L. 97–123 (the Act to Restore Minimum Benefits), and for 1982, P.L. 97–248 (the Tax Equity and Fiscal Responsibility Act of 1982).

[3] Less than $50 million.

TABLE 26.—ADDITIONAL TAX INCOME IN 1979 TO 1990 TO THE OASDHI PROGRAMS DUE TO THE AMENDMENTS OF 1977, 1981, AND 1982, ON THE BASIS OF 1982 TRUSTEES' INTERMEDIATE (II-B) ASSUMPTIONS

[In billions]

Calendar years	Additional tax income		
	1977 amendments	1981 minimum benefit bill	1982 Tax Act
1979	$6.6		
1980	10.0		
1981	19.3		
1982	23.1	$0.6	
1983	25.0	.7	$1.6
1984	27.8	.7	1.9
1985	42.4	.8	2.2
1986	45.1	.9	2.6
1987	48.9	1.0	2.8
1988	52.9	1.0	3.0
1989	57.0	1.1	3.3
1990	86.2	1.3	3.7
1980-90	437.7	8.1	21.2

VI. Resolving the Financing Problem

In the simplest terms, restoring the soundness of social security must be achieved by increasing revenues, by reducing benefits, or by a combination of the two.

INCREASING REVENUES

The most direct method of increasing revenues to the system is through an increase in the social security tax rate or the taxable earnings base (the maximum amount of annual earnings to which the tax rate applies). As noted earlier, the 1977 amendments already provided for significant increases in both of these elements. While further increases in social security tax rates could be enacted, there will be substantial rate increases occurring over the next few years under present law (in 1985, 1986 and 1990).

The 1977 increases in the taxable earnings base will produce a situation in which approximately 91 percent of all wages will ultimately be subject to the tax and 94 percent of all workers covered by social security will have their full earnings taxed. Increases above this level have frequently been opposed because they result in very large individual tax payments. Also, because of the relationship between earnings and benefits, a higher earnings base would produce higher future benefit levels and thus larger long-range benefit costs, which would substantially offset the additional revenue. (While a tax rate increase results in no additional future outgo, an earnings base increase will ultimately result in $1 of additional outgo for each $2 of additional income generated.)

TABLE 27.—ADDITIONAL TAX CONTRIBUTION INCOME TO THE TRUST FUNDS RESULTING FROM SCHEDULED INCREASES IN TAX RATES AND THE TAXABLE EARNINGS BASE, 1982–1990 [1]

[In billions]

Calendar year	Additional tax contributions due to—								
	Increases in the taxable earnings base over the 1981 level			Increases in tax rates over the 1981 level			Increases in both the taxable earnings base and tax rates over 1981 level		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$1.3	$0.3	$1.6	$0.3	.....	$0.3	$1.6	$0.3	$1.9
1983	5.1	1.2	6.3	1.4	.....	1.4	6.5	1.2	7.7
1984	8.7	2.1	10.7	1.6	.....	1.6	10.3	2.1	12.4
1985	13.3	3.2	16.5	11.3	$1.6	12.9	25.4	4.9	30.3
1986	19.0	4.6	23.6	12.6	5.2	17.7	32.8	10.2	43.0
1987	25.4	6.1	31.5	13.3	5.6	18.9	40.4	12.4	52.7

TABLE 27.—ADDITIONAL TAX CONTRIBUTION INCOME TO THE TRUST FUNDS RESULTING FROM SCHEDULED INCREASES IN TAX RATES AND THE TAXABLE EARNINGS BASE, 1982–1990 [1]—Continued

[In billions]

Calendar year	Additional tax contributions due to—								
	Increases in the taxable earnings base over the 1981 level			Increases in tax rates over the 1981 level			Increases in both the taxable earnings base and tax rates over 1981 level		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1988	33.0	7.9	40.9	14.0	5.9	19.9	49.2	14.7	63.9
1989	41.5	10.0	51.5	14.7	6.2	21.0	59.0	17.3	76.3
1990	51.0	12.2	63.2	36.5	6.5	43.0	95.1	20.1	115.3

[1] The above estimates are based on the 1982 Trustees' intermediate II–B assumptions. The combined effect of both rate and base changes is larger than the sum of the components due to interaction. These estimates are based on an assumed earnings base of $35,100 for 1983. The actual earnings base will be $35,700.

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

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

DECREASING OUTGO

The other alternative for improving the financial condition of social security is changing the benefit structure or the way benefits are increased so as to lower future benefit payments. In general, proposals to improve the program's financial status by reducing benefit costs can be categorized as: (1) targeted proposals designed to eliminate features which the Congress has found to be inappropriate (as in the case of the general elimination of benefits for prisoners) or of relatively lower priority (as in the case of last year's phasing out of student benefits), or (2) general reductions which apply in a substantially equal way to all beneficiaries or all future beneficiaries. Examples of general reductions in the growth of benefits would be the 1981 change in the benefit rounding rules which will have a minor, but fairly uniform impact on all beneficiaries, or any of the proposed changes in the annual cost of living adjustments.

Given the very large beneficiary population, about 36 million people, generalized reductions in future benefits generally produce more short-range savings than do more targeted adjustments.

VII. Recent History of Underfinancing

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

The changes enacted in 1977 were projected at that time to be sufficient to assure adequate funds to meet benefit payments in the cash benefits programs until sometime beyond the year 2025, although earlier action would be required to deal with the deficits in the HI program.

As illustrated in Tables 28 and 29 below, the economic assumptions underlying the 1972 and 1977 legislation were too optimistic, particularly with regard to CPI increases and real wage growth—two essential determinants of the short-range condition of the trust funds.

TABLE 28.—COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1972–73 FORECASTS [1]

[In percent]

Calendar year	Key economic indicators								
	CPI increase			Real wage differential [2]			Unemployment rate		
	Estimated		Actual	Estimated		Actual	Estimated		Actual
	1972	1973		1972	1973		1972	1973	
1972	2.75	.....	3.3	2.25	.....	4.0	4.2	.....	5.6
1973	2.75	3.3	6.2	2.25	2.9	.7	4.2	4.5	4.9
1974	2.75	3.3	11.0	2.25	2.9	−3.5	4.2	4.5	5.6
1975	2.75	3.3	9.1	2.25	2.9	−2.5	4.2	4.5	8.5
1976	2.75	3.3	5.8	2.25	2.9	2.5	4.2	4.5	7.7
1977	2.75	2.75	6.5	2.25	2.9	1.6	4.2	4.5	7.0

TABLE 28.—COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1972–73 FORECASTS [1]—Continued

[In percent]

Calendar year	Key economic indicators								
	CPI increase			Real wage differential [2]			Unemployment rate		
	Estimated		Actual	Estimated		Actual	Estimated		Actual
	1972	1973		1972	1973		1972	1973	
1978	2.75	2.75	7.6	2.25	2.25	0.6	4.2	4.5	6.0
1979	2.75	2.75	11.5	2.25	2.25	−2.7	4.2	4.5	5.8
1980	2.75	2.75	13.5	2.25	2.25	−4.9	4.2	4.5	7.1

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

[2] The increase in average nominal wages in excess of the increase in the CPI.

TABLE 29.—COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1977 FORECAST [1]

[In percent]

Calendar year	Key economic indicators					
	CPI increase		Real wage differential		Unemployment rate	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
1977	6.0	6.5	2.4	1.6	7.1	7.0
1978	5.4	7.6	2.7	0.6	6.3	6.0
1979	5.3	11.5	2.5	−2.7	5.7	5.8
1980	4.7	13.5	2.4	−4.9	5.2	7.1
1981	4.1	10.3	2.3	−1.6	5.0	7.6

[1] The 1977 forecast was based on the intermediate set of assumptions in the 1977 Trustees' report.

Since 1977, the short- and long-range condition of the trust funds has deteriorated continuously. In large measure, this has been the result of prices—which determine benefit increases—growing more rapidly than wages—which determine income to the system. (From 1977 through 1981, price inflation outstripped wage growth by about 1.2 percent per year.) This also worsened the long-range deficit by increasing the level of benefits on which future increases would be based, and reducing on a relative basis the level of earnings subject to the earnings base now and in the future.

The experience of the last decade has shown that, given the way social security benefits are indexed to the CPI while income is determined by wages (and productivity), social security financing is extremely vulnerable to downturns in the economy and especially to situations in which prices grow more rapidly than wages.

TABLE 30.—LONG-RANGE OASDHI FINANCIAL FORECASTS IN PREVIOUS TRUSTEES' REPORTS, 1977 TO 1982 (INTERMEDIATE ASSUMPTIONS)

[In percent of taxable payroll]

	Average scheduled tax rate	Average expenditures	Difference (actuarial imbalance)
OASDI program—75-year forecast:			
Prior to 1977 Amendments (1977 Trustees' Report)	10.99	19.19	−8.20
Just after enactment of 1977 Amendments	12.12	13.58	−1.46
Trustees' report:			
1978	12.16	13.55	−1.40
1979	12.19	13.38	−1.20
1980	12.22	13.74	−1.52
1981	12.25	14.07	−1.82
1982	12.27	14.09	−1.82
HI program—25-year forecast:			
Prior to 1977 Amendments	2.80	3.96	−1.16
Just after enactment of 1977 Amendments	2.70	3.71	−1.01
Trustees' report:			
1978	2.74	3.86	−1.12
1979	2.78	3.82	−1.04
1980	2.81	3.80	−.99
1981	2.84	4.28	−1.44
1982	2.86	4.83	−2.07

VIII. Summary Tables

Program Data

The following tables provide historical and other summary program data:

TABLE 31.—SUMMARY OF CURRENT SOCIAL SECURITY INFORMATION

1. *Retirement Test* (Annual Exempt Amounts):

	1982	1983
Age 65 and over	$6,000	$6,600
Under age 65	4,440	4,920

2. *SMI Premium:* $12.20 per month (eff. 7/82).

3. *SSI Payment Standard:* $284.30 individual, $426.40 couple (eff. 7/82).

4. *Benefit Formulas for 1982 Cohort*

PIA	Maximum Family Benefit
90% of first $230 of AIME, plus 32% of AIME over $230 thru $1,388, plus 15% of AIME over $1,388	150% of first $294 of PIA, plus 272% of PIA over $294 thru $425, plus 134% of PIA over $425 thru $554, plus 175% of PIA over $554

5. *Benefit Formulas for 1983 Cohort*

PIA	Maximum Family Benefit
90% of first $254 of AIME, plus 32% of AIME over $254 thru $1,528, plus 15% of AIME over $1,528	150% of first $324 of PIA, plus 272% of PIA over $324 thru $468, plus 134% of PIA over $468 thru $610, plus 175% of PIA over $610

6. *Average Benefits in Current Pay Status:*

	12/81	5/82	6/82
Retired worker alone	$377	$378	$406
Retired couple	643	647	695
Aged widow or widower	349	351	377
Young survivor family	858	851	914
Disabled worker alone	397	398	428
Disabled worker and family	802	793	851

[1] Office of the Actuary, Social Security Administration.

7. *Benefit Examples:*[1]

Retired Worker Age 65 in 1983 (1/83 PIA)		Long-Range Constant Replacement Rate Under Decoupled System	
	Amount		Percent
Fed. min. wage earner.	$368.70	Fed. minimum wage earner	55
Average earner	553.50	Average earner	42
Maximum earner.	709.50	Maximum earner	28

[1] 1982 Trustees' report alternative II–B assumptions.

8. *Poverty Level:*[1]

	1980	1981	1982 (projected)
Aged individual	$3,949	$4,359	$4,603
Couple, aged head	4,983	5,498	5,806
Family of four	8,414	9,287	9,807

[1] Office of Research and Statistics, Social Security Administration.

TABLE 32.—TOTAL OASDI BENEFICIARIES OVER THE YEARS

Calendar year[1]	Beneficiaries (in thousands)[2]		
	OASI	DI	Total
1940			
1945	1,106		1,106
1950	2,930		2,930
1955	7,563		7,563
1960	13,740	522	14,262
1965	18,509	1,648	20,157
1970	23,185	2,568	25,753
1975	27,244	4,125	31,369

TABLE 32.—TOTAL OASDI BENEFICIARIES OVER THE YEARS—Continued

Calendar year[1]	Beneficiaries (in thousands)[2]		
	OASI	DI	Total
1980	30,384	4,734	35,118
1981	31,074	4,636	35,710
1982	31,207	4,184	35,391

[1] As of June of each year.
[2] Beneficiaries in current pay status.
Source: SSA.

TABLE 33.—OASDI CASH BENEFITS: NUMBER AND AVERAGE AMOUNT, AUGUST 1982

Type of beneficiary	New benefit awards		Benefits in current-payment status[1]		
	Number	Average amount[3]	Number	Average amount[3]	Monthly amount (in thousands)
Total monthly beneficiaries	332,913	.....	35,278,027	.....[2]	[3] $13,086,992
Total adult men [1]	105,390	.....	13,042,461	.....	6,033,134
Total adult women [1]	161,746	.....	19,134,849	.....	6,356,666
Retired workers, spouses and children	194,947	.....	24,005,145	.....	9,255,533
Retired workers	148,620	$413.50	20,496,876	$416.60	8,538,944
Men	86,456	488.23	10,903,176	466.17	5,082,737
Women	62,164	309.57	9,593,700	360.26	3,456,207
Wives and husbands	32,486	202.21	3,024,259	210.91	637,861
Children	13,841	176.98	484,010	162.66	78,728
Disabled workers, spouses and children	47,307	.....	4,041,334	.....	1,352,508
Disabled workers	22,060	440.94	2,657,345	442.16	1,174,966
Men	15,369	490.06	1,784,380	486.87	868,766
Women	6,691	328.11	872,965	350.76	306,199
Wives and husbands	6,193	119.94	385,351	130.55	50,306
Children	19,054	120.08	998,638	127.41	127,236
Survivors of deceased workers	90,601	.....	7,164,960	.....	2,470,646
Widowed mothers and fathers	7,953	279.73	509,543	304.48	155,145
Children	34,740	275.01	2,086,474	290.33	605,762
Widows and widowers	47,068	378.49	4,439,567	377.72	1,676,906
Disabled widows and widowers	794	250.41	116,533	244.76	28,523
Parents	46	364.05	12,843	335.52	4,309
Special age-72 beneficiaries	58	.....	66,588	.....	8,305

[1] Excludes children under age 18 and student children; includes disabled children.
[2] The sum of individual categories may not equal the totals due to independent roundings.
[3] Represents amount before final rounding of benefits.
Source: Social Security Administration.

TABLE 34.—SOCIAL SECURITY EXPENDITURES CALENDAR YEARS 1940–82

[In millions]

	OASI	DI	Total OASDI	HI	Total OASI, DI, HI	OASDHI 1981 dollars [1]
1940	$62					$402
1950	1,022					3,861
1960	11,198	$600	$11,798			36,735
1961	12,432	956	13,388			40,705
1962	13,973	1,183	15,156			45,568
1963	14,920	1,297	16,217			48,179
1964	15,613	1,407	17,020			49,912
1965	17,501	1,687	19,188			55,313
1966	18,967	1,947	20,914	$999	$21,913	61,415
1967	20,382	2,089	22,471	3,430	25,901	70,556
1968	23,557	2,458	26,015	4,277	30,292	79,195
1969	25,176	2,716	27,892	4,857	32,749	81,243
1970	29,848	3,259	33,107	5,281	38,388	89,923
1971	34,542	4,000	38,542	5,900	44,442	99,802
1972	38,522	4,759	43,281	6,503	49,784	108,226
1973	47,175	5,973	53,148	7,289	60,437	123,694
1974	53,397	7,196	60,593	9,372	69,965	129,039
1975	60,395	8,790	60,185	11,581	71,766	121,267
1976	67,876	10,366	78,242	13,679	91,921	146,862
1977	75,309	11,946	87,255	16,019	103,274	154,996
1978	83,064	12,954	96,018	18,178	114,196	159,203
1979	93,133	14,186	107,319	21,078	128,397	160,878
1980	107,678	15,872	123,550	25,577	149,127	164,599
1981	126,695	17,658	144,352	30,726	175,078	175,078
1982 [2]	141,771	18,508	160,279	35,670	195,949	

[1] Based on CPI, all items.
[2] Estimated under alternative II–B assumptions in 1982 Trustees' report.

TABLE 35.—AMOUNT OF NET ADMINISTRATIVE EXPENSES AND NET ADMINISTRATIVE EXPENSES EXPRESSED AS A PERCENTAGE OF BENEFIT PAYMENTS, SELECTED FISCAL YEARS 1950–82

Fiscal year	Net administrative expenses (in millions)				As a percentage of benefit payments			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$57			$57	8			8
1960	202	$32		234	2	6		2
1970	474	149	$149	772	2	5	3	2
1975	848	253	259	1,360	2	3	3	2
1980	1,160	334	497	1,991	1	2	2	1
1982 [1]	1,443	550	564	2,557	1	3	2	1

[1] Preliminary, based on 1982 Trustees' Reports.

Benefits and Taxes.—The following tables provide information on past and future benefits and taxes, and benefits in relation to inflation and wage growth.

TABLE 36.—COMPARISON OF OASDI GENERAL BENEFIT INCREASES WITH INCREASES IN CONSUMER PRICE INDEX

[In percent]

Month when first effective	Benefit increase [1]	Increase in CPI from previous effective date	Excess of benefit increase over CPI increase
September 1950	[2] 77	75.5	+1.5
September 1952	[3] 15	9.3	+5.7
September 1954	[3] 13	.5	+12.5
January 1959	7	7.9	−.9
January 1965	7	7.9	−.9
February 1968	13	9.3	+3.7
January 1970	15	10.8	+4.2
January 1971	10	5.2	+4.8
September 1972	20	5.9	+14.1
June 1974	[4] 11	16.4	−5.4
June 1975	[5] 8.0	9.3	−1.3
June 1976	6.4	5.4	+1.0
June 1977	5.9	6.9	−1.0
June 1978	6.5	7.3	−.8
June 1979	9.9	11.1	−1.2
June 1980	14.3	14.2	+.1
June 1981	11.2	9.5	+1.7
June 1982	7.4	6.9	+.5

[1] All benefit increases, except those for September 1950, 1952, and 1954, were uniform across-the-board percentage increases (at times with somewhat larger proportionate increases in the minimum benefit).
[2] Measured from January 1940.
[3] Average increase in benefits for those then on the roll.
[4] Made in two steps, with 7% being effective for March 1974.
[5] Resulting from automatic-adjustment provisions in 1975 and after.

TABLE 37.—COMPARISON OF OASDI GENERAL BENEFIT INCREASES WITH INCREASES IN AVERAGE WAGE LEVELS

[In percent]

Period	OASDI benefit increases [1]	Increase in average wages [2]	Excess of benefit increase over wage increase
January 1940 to September 1950	77.0	121.8	−44.8
September 1950 to September 1952	15.0	15.8	−.8
September 1952 to September 1954	13.0	5.9	+7.1
September 1954 to January 1959	7.0	18.4	−11.4

TABLE 37.—COMPARISON OF OASDI GENERAL BENEFIT INCREASES WITH INCREASES IN AVERAGE WAGE LEVELS—Continued

[In percent]

Period	OASDI benefit increases [1]	Increase in average wages [2]	Excess of benefit increase over wage increase
January 1959 to January 1965	7.0	22.5	−15.5
January 1965 to February 1968	13.0	17.7	−4.7
February 1968 to January 1970	15.0	11.3	+3.7
January 1970 to January 1971	10.0	5.0	+5.0
January 1971 to September 1972	20.0	13.7	+6.3
September 1972 to June 1974	11.0	10.9	+.1
June 1974 to June 1975	8.0	7.4	+.6
June 1975 to June 1976	6.4	6.9	−.5
June 1976 to June 1977	5.9	6.0	−.1
June 1977 to June 1978	6.5	7.9	−1.4
June 1978 to June 1979	9.9	8.7	+1.2
June 1979 to June 1980	14.3	9.0	+5.3
June 1980 to June 1981	11.2	[3] 8.7	+2.5
June 1981 to June 1982	7.4	[3] 6.7	+.7

[1] See note 1 in Table 36.
[2] Based on wages in covered employment in first quarter of year for years up through 1977, and based on total nationwide wages reported to IRS (in both covered and noncovered employment) for subsequent years.
[3] Based on alternative II-B assumptions in 1982 Trustees' Report.

TABLE 38.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI

[In percent]

	Increase in wages [1]		Increase in CPI		Benefit increases	
	Year to year	Cumulative since year of each benefit increase to 1981	Year to year	Cumulative since year of each benefit increase to 1981	Increase during year	Cumulative since year of each benefit increase to 1981
1940		1,038.7		548.3		788.0
1950	112.9	434.9	71.7	277.6	77.0	401.7
1952	16.9	357.7	10.5	241.7	12.5	345.9
1954	6.1	331.2	1.0	238.3	13.0	294.6
1959	22.2	252.9	8.4	212.1	7.0	268.8
1965	20.8	192.1	8.2	188.4	7.0	244.7
1968	19.6	144.2	10.3	161.5	13.0	205.1
1970	11.0	120.0	11.6	134.3	15.0	165.3
1971	5.0	109.4	4.3	124.7	10.0	141.1
1972	9.8	90.7	3.3	117.5	20.0	101.0
1974	12.6	69.4	17.9	84.5	11.0	81.0

TABLE 38.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI—Continued

[In percent]

	Increase in wages [1]		Increase in CPI		Benefit increases	
	Year to year	Cumulative since year of each benefit increase to 1981	Year to year	Cumulative since year of each benefit increase to 1981	Increase during year	Cumulative since year of each benefit increase to 1981
1975 [2]	7.5	57.7	9.1	68.1	8.0	67.6
1976	6.9	47.5	5.8	59.8	6.4	57.5
1977	6.0	39.1	6.5	50.1	5.9	48.8
1978	7.9	28.9	7.6	39.5	6.5	39.7
1979	8.7	18.5	11.5	25.1	9.9	27.1
1980	9.0	[3] 8.7	13.5	10.3	14.3	11.2
1981	[3] 8.7	.....	10.3	.....	11.2	.....
1982	.....	.....	.....	.....	7.4	.....

[1] See note 2 in table 37.
[2] Increases from 1975 on were tied to increases in the CPI.
[3] Estimates from 1982 Trustees' Report intermediate II-B assumptions.

Source: Congressional Research Service.

TABLE 39.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, FOR RETIRED WORKERS ONLY

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amount (1982 constant dollars)			Replacement rates (in percent)		
	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner
1940	$537	$1,142	$3,000	$213	$294	$494	$1,531	$2,123	$3,570	39.6	25.8	16.5
1945	624	1,936	3,000	249	340	518	1,400	1,912	2,917	39.9	17.5	17.3
1950	832	2,483	3,000	356	489	636	1,168	1,646	2,277	42.8	19.7	21.2
1955	1,560	3,156	3,600	774	1,091	1,182	2,926	4,119	4,466	49.6	34.6	32.8
1960	2,080	3,856	4,800	936	1,284	1,428	3,198	4,395	4,886	45.0	33.3	29.7
1965	2,600	4,576	4,800	1,040	1,439	1,580	3,337	4,619	5,073	40.0	31.4	32.9
1970	3,328	5,894	7,800	1,421	2,021	2,278	3,708	5,271	5,945	42.7	34.3	29.2
1975	3,883	8,031	13,200	2,309	3,400	3,973	4,151	6,112	7,147	59.5	42.3	30.1
1980	6,032	11,479	22,900	3,859	5,862	7,437	4,374	6,647	8,432	64.0	51.1	32.5
1981	6,448	12,513	25,900	4,420	6,812	8,655	4,620	7,125	9,058	68.5	54.4	33.4
1982	6,968	13,594	29,700	4,444	6,702	8,500	4,444	6,702	8,500	63.8	49.3	28.6
1983	6,968	14,496	32,400	4,612	6,911	8,879	4,267	6,401	8,220	66.2	47.7	27.4
1984	7,530	15,664	35,100	4,703	7,069	9,152	4,047	6,087	7,882	62.5	45.1	26.1
1985	8,136	16,926	37,500	4,977	7,403	9,666	4,037	6,005	7,837	61.2	43.7	25.8
1986	8,700	18,099	40,500	5,294	7,965	10,449	4,080	6,134	8,054	60.8	44.0	25.8
1987	9,292	19,329	43,800	5,606	8,354	11,042	4,103	6,112	8,089	60.3	43.2	25.2
1988	9,907	20,610	46,800	5,918	8,829	11,733	4,117	6,144	8,172	59.7	42.8	25.1
1989	10,560	21,968	50,100	6,223	9,381	12,537	4,140	6,237	8,337	58.9	42.7	25.0
1990	11,231	23,364	53,400	6,535	9,890	13,305	4,164	6,306	8,486	58.2	42.3	24.9
2000	19,320	40,191	93,300	11,052	16,921	24,241	4,771	7,311	10,471	57.2	42.1	26.0
2010	33,001	68,652	159,300	18,480	28,906	44,112	5,397	8,440	12,880	56.0	42.1	27.7
2020	56,370	117,268	271,800	31,146	49,391	77,033	6,143	9,737	15,191	55.3	42.1	28.3
2030	96,289	200,311	465,000	52,936	84,382	131,830	7,053	11,240	17,566	55.0	42.1	28.4
2040	164,475	342,160	795,400	90,438	144,146	225,199	8,139	12,975	20,272	55.0	42.1	28.3
2050	280,947	584,459	1,357,200	154,488	246,238	384,702	9,395	14,977	23,395	55.0	42.1	28.3

Based on 1982 Trustees' intermediate II–B assumptions and retirement at age 65.

TABLE 40.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, FOR RETIRED WORKERS WITH DEPENDENT SPOUSES

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amount (1982 constant dollars)			Replacement rates (in percent)		
	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner
1940	$537	$1,142	$3,000	$320	$441	$741	$2,297	$3,185	$5,355	59.6	38.6	24.7
1945	624	1,936	3,000	374	510	777	2,100	2,868	4,376	59.9	26.3	25.9
1950	832	2,483	3,000	534	734	954	1,752	2,469	3,416	64.2	29.6	31.8
1955	1,560	3,156	3,600	1,161	1,637	1,773	4,389	6,179	6,699	74.4	51.9	49.3
1960	2,080	3,856	4,800	1,404	1,926	2,142	4,797	6,593	7,329	67.5	49.9	44.6
1965	2,600	4,576	4,800	1,560	2,159	2,370	5,006	6,929	7,610	60.0	47.2	49.4
1970	3,328	5,894	7,800	2,132	3,032	3,417	5,562	7,907	8,918	64.1	51.4	43.8
1975	3,883	8,031	13,200	3,464	5,100	5,960	6,227	9,168	10,721	89.2	63.5	45.2
1980	6,032	11,479	22,900	5,789	8,793	11,156	6,561	9,971	12,648	96.0	76.6	48.7
1981	6,448	12,513	25,900	6,630	10,218	12,983	6,930	10,688	13,587	102.8	81.7	50.1
1982	6,968	13,594	29,700	6,666	10,053	12,750	6,666	10,053	12,750	95.7	74.0	42.9
1983	6,968	14,496	32,400	6,918	10,367	13,319	6,401	9,602	12,330	99.3	71.5	41.1
1984	7,530	15,664	35,100	7,055	10,604	13,728	6,071	9,131	11,823	93.7	67.7	39.1
1985	8,136	16,926	37,500	7,466	11,105	14,499	6,056	9,008	11,756	91.8	65.6	38.7
1986	8,700	18,099	40,500	7,941	11,948	15,674	6,120	9,201	12,081	91.3	66.0	38.7
1987	9,292	19,329	43,800	8,409	12,531	16,563	6,155	9,168	12,134	90.5	64.8	37.8
1988	9,907	20,610	46,800	8,877	13,244	17,600	6,176	9,216	12,258	89.6	64.3	37.6
1989	10,560	21,968	50,100	9,335	14,072	18,806	6,210	9,356	12,506	88.4	64.1	37.5
1990	11,231	23,364	53,400	9,803	14,835	19,958	6,246	9,459	12,729	87.3	63.5	37.4
2000	19,320	40,191	93,300	16,578	25,382	36,362	7,157	10,967	15,707	85.8	63.2	39.0
2010	33,001	68,652	159,300	27,720	43,359	66,168	8,096	12,660	19,320	84.0	63.2	41.5
2020	56,370	117,268	271,800	46,719	74,087	115,550	9,215	14,606	22,787	82.9	63.2	42.5
2030	96,289	200,311	465,000	79,404	126,573	197,745	10,580	16,860	26,349	82.5	63.2	42.5
2040	164,475	342,160	794,400	135,657	216,219	337,799	12,209	19,463	30,408	82.5	63.2	42.5
2050	280,947	584,459	1,357,200	231,732	369,357	577,053	14,093	22,466	35,093	82.5	63.2	42.5

Based on 1982 Trustees' intermediate II-B assumptions and retirement at age 65.

TABLE 41.—OASDI–HI TAXES PAID BY WORKERS AT FEDERAL MINIMUM, AVERAGE AND MAXIMUM WAGE LEVELS, 1937–90

Year	Federal minimum wage		Average wages		Maximum taxable earnings base		
	Earnings	Employee taxes	Earnings	Employee taxes	Earnings	Employee taxes	Self-employed taxes
Historical:							
1937	(1)	(1)	$1,137.96	$11.38	$3,000	$30.00	(2)
1938	$87	$0.87	1,053.24	10.53	3,000	30.00	(2)
1939	537	5.37	1,142.36	11.42	3,000	30.00	(2)
1940	624	6.24	1,195.00	11.95	3,000	30.00	(2)
1941	624	6.24	1,276.04	12.76	3,000	30.00	(2)
1942	624	6.24	1,454.28	14.54	3,000	30.00	(2)
1943	624	6.24	1,713.52	17.14	3,000	30.00	(2)
1944	624	6.24	1,936.32	19.36	3,000	30.00	(2)
1945	659	6.59	2,021.40	20.21	3,000	30.00	(2)
1946	832	8.32	1,891.76	18.92	3,000	30.00	(2)
1947	832	8.32	2,175.32	21.75	3,000	30.00	(2)
1948	832	8.32	2,361.64	23.62	3,000	30.00	(2)
1949	832	8.32	2,483.20	24.83	3,000	30.00	(2)
1950	1,499	22.49	2,543.96	38.16	3,000	45.00	(2)
1951	1,560	23.40	2,799.16	41.99	3,600	54.00	$81.00
1952	1,560	23.40	2,973.32	44.60	3,600	54.00	81.00
1953	1,560	23.40	3,139.44	47.09	3,600	54.00	81.00
1954	1,560	31.20	3,155.64	63.11	3,600	72.00	108.00
1955	1,560	31.20	3,301.44	66.03	4,200	84.00	126.00
1956	1,993	39.86	3,532.36	70.65	4,200	84.00	126.00
1957	2,080	46.80	3,641.72	81.94	4,200	94.50	141.75
1958	2,080	46.80	3,673.80	82.66	4,200	94.50	141.75
1959	2,080	52.00	3,855.80	96.39	4,800	120.00	180.00
1960	2,080	62.40	4,007.12	120.21	4,800	144.00	216.00
1961	2,184	65.52	4,086.76	122.60	4,800	144.00	216.00
1962	2,392	74.75	4,291.40	134.11	4,800	150.00	225.60
1963	2,461	89.21	4,396.64	159.38	4,800	174.00	259.20
1964	2,600	94.25	4,576.32	165.89	4,800	174.00	259.20
1965	2,600	94.25	4,658.72	168.88	4,800	174.00	259.20
1966	2,600	108.20	4,938.36	207.41	6,600	277.20	405.90
1967	2,886	126.98	5,213.44	229.39	6,600	290.40	422.40
1968	3,293	144.89	5,571.76	245.16	7,800	343.20	499.20
1969	3,328	159.74	5,893.76	282.90	7,800	374.40	538.20
1970	3,328	159.74	6,186.24	296.94	7,800	374.40	538.20
1971	3,328	173.06	6,497.08	337.85	7,800	405.60	585.00
1972	3,328	173.06	7,133.80	370.96	9,000	468.00	675.00
1973	3,328	194.69	7,580.16	443.44	10,800	631.80	864.00
1974	3,883	227.16	8,030.76	469.80	13,200	772.20	1,042.80
1975	4,368	255.53	8,630.92	504.91	14,100	824.85	1,113.90
1976	4,784	279.86	9,226.48	539.75	15,300	895.05	1,208.70
1977	4,784	279.86	9,776.44	572.10	16,500	965.25	1,303.50
1978	5,512	333.48	10,556.03	638.64	17,700	1,070.85	1,433.70
1979	6,032	369.76	11,479.46	703.69	22,900	1,403.77	1,854.90
1980	6,448	395.26	12,513.46	767.08	25,900	1,587.67	2,097.90
1981	6,968	463.37	13,594.27	904.02	29,700	1,975.05	2,762.10
1982	6,968	466.86	14,495.68	971.21	32,400	2,170.80	3,029.40
Cumulative:							
1937–82		5,210.74		10,207.35		16,936.49	[2] 22,876.50

TABLE 41.—OASDI–HI TAXES PAID BY WORKERS AT FEDERAL MINIMUM, AVERAGE AND MAXIMUM WAGE LEVELS, 1937–90—Continued

Year	Federal minimum wage		Average wages		Maximum taxable earnings base		
	Earnings	Employee taxes	Earnings	Employee taxes	Earnings	Employee taxes	Self-employed taxes
1951–82		5,110.94		9,950.78		16,501.49	22,876.50
Future years: [3]							
1983	7,530	504.51	15,663.97	1,049.49	35,700	2,391.90	3,337.95
1984	8,137	545.18	16,926.39	1,134.07	37,500	2,512.50	3,506.25
1985	8,700	613.35	18,099.11	1,275.99	40,500	2,855.25	4,009.50
1986	9,292	664.38	19,329.42	1,382.05	43,800	3,131.70	4,380.00
1987	9,907	708.35	20,609.56	1,473.58	46,800	3,346.20	4,680.00
1988	10,560	755.04	21,968.32	1,570.73	50,100	3,582.15	5,010.00
1989	11,231	803.02	23,363.63	1,670.50	53,400	3,818.10	5,340.00
1990	11,906	910.81	24,767.80	1,894.74	57,000	4,360.50	6,127.50

[1] Federal minimum wage first applicable in 1938.
[2] Self-employed first covered effective 1951.
[3] Earnings amounts after 1982 based on Alternative II–B assumptions used in 1982 OASDI Trustees Report.

TABLE 42.—SOCIAL SECURITY TAXES PAID BY WORKERS AT VARIOUS EARNINGS LEVELS, 1960–87

Wage or salaried worker with annual wages of	Amount of worker's social security tax liability in calendar years				
	1960	1970	1975	1982	1987 [1]
$5,000	$144.00	$240.00	$292.50	$335.00	$357.50
$10,000	144.00	374.40	585.00	670.00	715.00
$20,000	144.00	374.40	824.85	1,340.00	1,430.00
$30,000	144.00	374.40	824.85	2,010.00	2,145.00
$40,000	144.00	374.40	824.85	2,170.80	2,860.00
$50,000	144.00	374.40	824.85	2,170.80	3,346.20

Self-employed worker with annual earnings of	Amount of worker's social security tax liability in calendar years				
	1960	1970	1975	1982	1987 [1]
$5,000	$216.00	$345.00	$395.00	$467.50	$500.00
$10,000	216.00	538.20	790.00	935.00	1,000.00
$20,000	216.00	538.20	1,113.90	1,870.00	2,000.00
$30,000	216.00	538.20	1,113.90	2,805.00	3,000.00
$40,000	216.00	538.20	1,113.90	3,029.40	4,000.00
$50,000	216.00	538.20	1,113.90	3,029.40	4,680.00

[1] Based on a taxable earnings base of $46,800 projected under the intermediate II–B assumptions of the 1982 Trustees' report and currently scheduled tax rates.

Other Financing Data.—Included in this section is further statistical data on social security income, trust fund operations, and reserve needs.

TABLE 43.—TOTAL SOCIAL SECURITY INCOME AND PAYROLL TAX REVENUE COMPONENT, SELECTED FISCAL YEARS 1950–81

Fiscal year	Total income (in millions)				Payroll tax income as a percent of total income			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$2,367	.....	.....	$2,367	89.0	.....	.....	89.0
1960	10,360	1,034	.....	11,394	95.0	95.5	.....	95.0
1970	31,746	4,380	5,614	41,740	94.4	94.5	85.2	93.2
1980	100,051	17,376	25,415	142,842	97.6	96.7	91.5	96.4
1981	121,572	12,993	32,863	167,428	97.9	96.9	92.6	96.8

Source: 1982 Social Security Trustees' reports.

TABLE 44.—INTEREST AS A COMPONENT OF SOCIAL SECURITY INCOME, SELECTED FISCAL YEARS 1950–1981

Fiscal year	Interest income (in millions)				As a percentage of total income			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$257	.....	.....	$257	11	.....	.....	11
1960	517	$47	.....	564	5	5	.....	5
1970	1,350	223	$137	1,710	4	5	2	4
1975	2,292	512	609	3,413	4	6	5	4
1980	1,886	453	1,039	3,378	2	3	4	2
1981	2,016	273	1,307	3,596	2	2	4	2

Source: 1982 Social Security Trustees' reports.

TABLE 45.—GENERAL REVENUE REIMBURSEMENT AS A COMPONENT OF SOCIAL SECURITY INCOME, SELECTED FISCAL YEARS 1950–1981

Fiscal year	General revenue reimbursement income [1] (in millions)				As a percentage of total income			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$4			$4	(2)			(2)
1960								
1970	442	$16	$628	1,086	1	(2)	11	3
1975	447	52	529	1,028	1	1	4	1
1980	557	118	871	1,546	1	1	3	1
1981	540	130	834	1,504	(2)	1	3	1

[1] Consists of reimbursement to the trust funds for:
a. Payments resulting from noncontributory military service.
b. Cash payments to noninsured persons aged 72 or over.
c. Medicare benefits for uninsured persons.
d. Review of Medicaid and Maternal and Child Health hospital admissions.

[2] Less than 0.05 percent.

Source: 1982 Social Security Trustees' reports.

TABLE 46.—ESTIMATED TRUST FUND OPERATIONS: CBO ECONOMIC ASSUMPTIONS, FY 1980–90 [1]

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI [2]	Total
1980	$100.1	$17.4	$117.4	$25.4	$142.8	$103.2	$15.3	$118.5	$24.3	$142.8
1981	121.6	13.0	134.6	32.9	167.4	122.3	17.3	139.6	29.3	168.8
1982	127.4	21.3	148.7	37.6	186.3	138.3	18.4	156.7	34.5	191.1
1983	144.5	18.7	163.2	35.7	198.9	152.6	19.2	171.8	37.8	209.5
1984	143.3	27.3	170.6	46.0	216.6	166.2	19.7	185.9	43.0	228.8
1985	158.9	33.6	192.5	51.5	243.9	179.0	19.7	198.7	48.6	247.2
1986	173.6	39.1	212.7	58.9	271.6	194.6	20.1	214.7	57.2	271.9
1987	186.9	43.3	230.2	64.6	294.8	211.3	21.2	232.5	66.9	299.4
1988	203.1	48.4	251.5	69.7	321.2	229.8	23.0	252.8	76.3	329.0
1989	217.7	53.2	270.9	74.0	344.9	249.4	25.3	274.7	86.9	361.5
1990	246.9	64.2	311.1	78.3	389.4	269.2	27.7	296.9	98.9	395.8

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$3.2	$2.1	−$1.1	$1.1	(3)	$24.6	$7.7	$32.2	$14.5	$46.7	27.0	37.0	28.0	55.0	33.0
1981	−0.7	−4.3	−5.0	3.6	−1.4	23.8	3.4	27.2	18.1	45.3	20.0	44.0	23.0	50.0	28.0
1982	−10.9	2.9	−8.0	3.1	−4.8	12.9	6.4	19.3	21.3	40.5	17.2	18.5	17.4	52.5	23.7
1983	−8.1	−0.5	−8.6	−2.1	−10.6	4.8	5.9	10.7	19.2	29.8	8.5	33.1	11.2	56.3	19.3
1984	−22.9	7.6	−15.3	3.0	−12.2	−18.4	13.5	−4.9	22.2	17.3	2.9	29.9	5.8	44.6	13.0
1985	−20.1	13.9	−6.2	2.9	−3.3	−38.2	27.4	−10.8	25.2	14.3	−10.1	68.7	−2.5	45.8	7.1
1986	−21.0	19.0	−2.0	1.7	−0.3	−59.2	46.4	−12.8	26.8	14.0	−19.6	136.4	−5.0	43.9	5.3
1987	−24.3	22.1	−2.3	−2.3	−4.6	−83.6	68.6	−15.0	24.5	9.5	−28.0	219.3	−5.5	40.1	4.7
1988	−26.7	25.4	−1.3	−6.6	−7.8	−110.2	94.0	−16.2	18.0	1.7	−36.4	298.6	−5.9	32.2	2.9
1989	−31.7	27.9	−3.8	−12.9	−16.6	−141.9	122.0	−19.9	5.1	−14.9	−44.2	372.2	−5.9	20.7	0.5
1990	−22.3	36.5	14.2	−20.6	−6.4	−164.2	158.4	−5.8	−15.5	−21.3	−52.7	439.7	−6.7	5.2	−3.8

[1] Includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] Does not reflect the effects of the delay in periodic interim payments provided under Public Law 97–248. [3] Less than $0.1 billion.

1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $12.4 billion would be transferred to OASI in 1982, $6.1 billion from DI and $6.3 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1988 and later are theoretical, since the fund would be depleted in 1988 under this set of assumptions.

TABLE 47.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES REPORT "II-B" ASSUMPTIONS, FISCAL YEARS 1980-90 [1]

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI [2]	Total
1980	$100.1	$17.4	$117.4	$25.4	$142.8	$103.2	$15.3	$118.5	$24.3	$142.8
1981	121.6	13.0	134.6	32.9	167.4	122.3	17.3	139.6	29.3	168.8
1982	126.8	21.3	148.1	37.6	185.7	138.0	18.0	156.0	34.4	190.4
1983	146.4	19.0	165.5	37.2	202.7	153.0	18.8	171.8	39.5	211.3
1984	147.2	28.6	175.8	47.5	223.3	168.7	19.5	188.2	45.0	233.2
1985	163.5	35.3	198.8	53.1	251.9	186.5	20.9	207.5	50.6	258.1
1986	178.4	40.7	219.0	61.2	280.2	204.0	22.4	226.4	56.8	283.3
1987	191.4	44.9	236.4	67.3	303.7	221.9	23.8	245.7	64.7	310.5
1988	206.7	49.9	256.5	72.9	329.4	239.9	25.4	265.3	73.6	339.0
1989	221.1	54.8	275.9	78.0	353.9	258.5	27.1	285.7	83.5	369.1
1990	249.5	65.8	315.4	83.1	398.4	277.5	29.0	306.5	93.9	400.4

	Net increase in funds					Funds at end of Year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$3.2	$2.1	−$1.1	$1.1	(3)	$24.6	$7.7	$32.2	$14.5	$46.7	27	37	28	55	33
1981	−.7	−4.3	−5.0	3.6	−1.4	23.8	3.4	27.2	18.1	45.3	20	44	23	50	28
1982	−11.2	3.3	−7.9	3.2	−4.7	12.7	6.7	19.3	21.3	40.6	17	19	17	53	24
1983	−6.5	.2	−6.3	−2.3	−8.6	6.2	6.9	13.1	19.0	32.0	8	35	11	54	19
1984	−21.5	9.1	−12.4	2.5	−9.9	−15.3	16.0	.6	21.5	22.1	4	35	7	42	14
1985	−23.0	14.3	−8.7	2.5	−6.2	−38.4	30.3	−8.1	24.0	15.9	−8	76	(2)	42	9
1986	−25.7	18.3	−7.4	4.4	−3.0	−64.0	48.6	−15.5	28.4	12.9	−19	135	−4	42	6
1987	−30.5	21.1	−9.4	2.6	−6.8	−94.5	69.7	−24.8	30.9	6.1	−29	204	−6	44	4
1988	−33.2	24.4	−8.8	−.7	−9.5	−127.7	94.1	−33.6	30.2	−3.4	−39	274	−9	42	2
1989	−37.4	27.7	−9.7	−5.4	−15.2	−165.1	121.8	−43.4	24.8	−18.6	−49	347	−12	36	−1
1990	−28.0	36.9	8.9	−10.8	−1.9	−193.1	158.6	−34.5	13.9	−20.6	−60	420	−14	26	−5

[1] Includes effects of Tax Equity and Fiscal Responsibility Act of 1982. [2] Does not reflect the effects of the delay in periodic interim payments provided under P.L. 97-248. [3] Less than $0.1 billion.

Notes: 1. The income figures for 1983, and the end-of-year asset figures for 1983 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. Under this set of assumptions, a total of $11.6 billion would be transferred to OASI in 1983, $6.2 billion from DI and $5.5 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1991 are theoretical, since the fund would be depleted in 1991 under this set of assumptions.

TABLE 48.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES' REPORT PESSIMISTIC ASSUMPTIONS, FISCAL YEARS 1980–90 [1]

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI [2]	Total
1980	$100.1	$17.4	$117.4	$25.4	$142.8	$103.2	$15.3	$118.5	$24.3	$142.8
1981	121.6	13.0	134.6	32.9	167.4	122.3	17.3	139.6	29.3	168.8
1982	126.8	21.3	148.1	37.6	185.7	138.0	18.0	156.0	34.4	190.4
1983	145.4	18.7	164.1	35.8	199.9	153.6	18.9	172.5	39.5	212.0
1984	141.1	27.7	168.8	46.0	214.8	171.9	19.9	191.8	45.2	237.0
1985	158.8	34.8	193.5	52.2	245.7	194.1	21.7	215.8	52.4	268.2
1986	175.2	40.9	216.1	61.1	277.2	217.7	23.7	241.4	61.1	302.5
1987	189.8	46.1	235.9	68.0	303.9	243.5	25.9	269.4	72.2	341.6
1988	206.9	52.2	259.1	74.5	333.6	270.7	28.3	299.0	85.1	384.1
1989	223.3	58.4	281.7	80.6	362.3	299.4	30.9	330.2	100.1	430.3
1990	255.1	71.6	326.7	86.7	413.4	329.8	33.7	363.5	117.0	480.4

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$3.2	$2.1	−$1.1	$1.1	(3)	$24.6	$7.7	$32.2	$14.5	$46.7	27	37	28	55	33
1981	−.7	−4.3	−5.0	3.6	−1.4	23.8	3.4	27.2	18.1	45.3	20	44	23	50	28
1982	−11.2	3.3	−7.9	3.2	−4.7	12.7	6.7	19.3	21.3	40.6	17	19	17	53	24
1983	−8.3	−.1	−8.4	−3.7	−12.1	4.4	6.5	10.9	17.6	28.5	8	35	11	54	19
1984	−30.8	7.8	−23.0	.7	−22.3	−26.4	14.3	−12.1	18.3	6.3	3	33	6	39	12
1985	−35.3	13.1	−22.2	−.2	−22.5	−61.7	27.4	−34.3	18.1	−16.2	−14	66	−6	35	2
1986	−42.5	17.2	−25.3	(2)	−25.3	−104.2	44.5	−59.6	18.1	−41.5	−28	115	−14	30	−5
1987	−53.7	20.2	−33.5	−4.2	−37.7	−157.9	64.8	−93.2	13.9	−79.2	−43	172	−22	25	−12
1988	−63.8	23.9	−39.9	−10.6	−50.5	−221.8	88.7	−133.1	3.4	−129.7	−58	229	−31	16	−21
1989	−76.1	27.6	−48.5	−19.5	−68.0	−297.9	116.3	−181.6	−16.1	−197.7	−74	287	−40	3	−30
1990	−74.7	37.9	−36.8	−30.3	−67.1	−372.5	154.1	−218.4	−46.4	−264.8	−90	345	−50	−14	−41

[1] Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982. [2] Does not reflect the effects of the delay in periodic interim payments provided under Public Law 97–248. See covering memorandum for a more complete explanation. [3] Less than $0.1 billion.

Notes: 1. The income figures for 1983, and the end-of-year asset figures for 1983 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $12.4 billion would be transferred to OASI in 1983, $6.1 billion from DI and $6.3 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1989 and later are theoretical, since the fund would be depleted in 1989 under this set of assumptions.

TABLE 49.—OUTLAY REDUCTIONS REQUIRED IN THE NEAR-TERM TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS [1]

[In billions]

	Outlay reductions required		
	CBO	1982 trustees' intermediate (II-B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1986:			
9 percent (1 mo)	$18.0	$16	$49
13 percent	28.5	22	58
15 percent	33.7	30	64
20 percent	46.4	41	76
30 percent	70.9	63	97
50 percent (6 mo)	116.0	103	136
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	66.8	60	221
13 percent	82.4	70	232
15 percent	90.1	73	236
20 percent	109.3	90	253
30 percent	146.8	126	293
50 percent (6 mo)	219.0	193	352

[1] Table includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982. Target ratios are attained by even annual increments.

TABLE 50.—OUTLAY REDUCTIONS REQUIRED IN THE NEAR-TERM TO BRING OASDI RESERVES UP TO CERTAIN LEVELS[1]

[In billions]

	Outlay reductions required		
	CBO	1982 trustees' intermediate (II-B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1986:			
9 percent (1 mo)	$35.4	$31	$59
13 percent	43.5	38	66
15 percent	47.4	42	69
20 percent	57.2	51	79
30 percent	75.8	68	96
50 percent (6 mo)	110.4	99	126
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	65.9	62	184
13 percent	67.5	69	192
15 percent	73.3	73	196

TABLE 50.—OUTLAY REDUCTIONS REQUIRED IN THE NEAR-TERM TO BRING OASDI RESERVES UP TO CERTAIN LEVELS[1]—Continued

[In billions]

	Outlay reductions required		
	CBO	1982 trustees' intermediate (II–B)	1982 trustees' pessimistic assumptions
20 percent	$87.5	$87	$210
30 percent	115.5	110	230
50 percent (6 mo)	169.4	154	280

[1] Table includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982. Target ratios are attained by even annual increments.

TABLE 51.—HISTORICAL LEVELS OF OASDI TRUST FUND ASSETS, ACTUAL AMOUNTS (1950–1981) [1]

[In billions]

Calendar year	Assets in the trust funds, end of year		
	OASDI	HI	OASDHI combined
1950	$13.7	([2])	$13.7
1960	22.6	([2])	22.6
1970	38.1	$3.2	41.3
1971	40.4	3.0	43.4
1972	42.8	2.9	45.7
1973	44.4	6.5	50.9
1974	45.9	9.1	[3] 55.0
1975	44.3	10.5	54.8
1976	41.1	10.6	51.7
1977	35.9	10.4	46.3
1978	31.7	11.5	43.2
1979	30.3	13.2	43.5
1980	26.5	13.7	40.2
1981	24.5	18.7	43.3

[1] Funds at end of year.
[2] HI (part A of medicare) enacted in 1965.
[3] The highest combined level of reserves (OASDHI) was reached in 1974.

Source: Various Trustees' reports since 1950.

Economic and Demographic Assumptions.—The following tables provide specific information concerning the economic and demographic assumptions which underlie the short- and long-range financial projections.

TABLE 52.—SELECTED ECONOMIC ASSUMPTIONS BY ALTERNATIVE, CALENDAR YEARS 1960–2055

Calendar year	Average annual percentage increase in—			Real-wage differential [2] (percent)	Average annual interest rate (percent)	Average annual unemployment rate (percent)
	Real GNP [1]	Average wages in covered employment	Consumer price index			
Past experience:						
1960–64	4.0	3.4	1.3	2.1	3.7	5.7
1965–69	4.4	5.4	3.4	2.0	5.2	3.8
1970–74	2.8	6.3	6.1	.2	6.7	5.4
1975–79	3.5	8.0	8.1	−.1	7.8	7.0
1970–80	2.8	7.3	7.7	−0.5	7.6	6.3
1970	−.2	4.9	5.9	−1.0	7.3	4.9
1971	3.4	4.9	4.3	.6	6.0	5.9
1972	5.7	7.3	3.3	4.0	5.9	5.6
1973	5.8	6.9	6.2	.7	6.6	4.9
1974	−.6	7.4	11.0	−3.6	7.5	5.6
1975	−1.1	6.6	9.1	−2.5	7.4	8.5
1976	5.4	8.2	5.7	2.5	7.1	7.7
1977	5.5	8.0	6.5	1.6	7.1	7.0
1978	4.8	8.2	7.6	.6	8.2	6.0
1979	3.2	8.8	11.5	−2.7	9.1	5.8
1980	−.2	8.6	13.5	−4.9	11.0	7.1
1981	2.0	8.7	10.3	−1.6	13.3	7.6
Alternative II–B:						
1982	−.8	6.6	6.9	−.3	13.0	9.1
1983	4.2	8.1	7.9	.2	11.4	8.5
1984	3.3	8.1	7.4	.7	9.3	8.0
1985	3.0	6.9	6.6	.3	8.0	7.7
1986	3.0	6.8	5.8	1.0	7.1	7.4
1987	3.0	6.6	5.5	1.1	6.8	7.1
1988	3.0	6.6	5.3	1.3	6.6	6.8
1989	3.0	6.4	4.9	1.5	6.5	6.4
1990	3.0	6.0	4.5	1.5	6.4	6.1
1995	2.5	5.5	4.0	1.5	6.1	5.0
2000	2.6	5.5	4.0	1.5	6.1	5.0

TABLE 52.—SELECTED ECONOMIC ASSUMPTIONS BY ALTERNATIVE, CALENDAR YEARS 1960–2055—Continued

Calendar year	Average annual percentage increase in—			Real-wage differential [2] (percent)	Average annual interest rate (percent)	Average annual unemployment rate (percent)
	Real GNP [1]	Average wages in covered employment	Consumer price index			
Alternative III:						
1982	−1.5	6.3	7.2	−.9	13.1	9.3
1983	.6	7.3	9.6	−2.3	12.3	9.8
1984	2.5	7.8	9.6	−1.8	10.5	9.6
1985	3.8	9.2	9.2	.0	9.4	8.8
1986	2.9	9.1	8.8	.3	8.8	8.4
1987	2.7	8.7	8.4	.3	8.3	8.0
1988	2.7	8.5	8.0	.5	8.1	7.7
1989	2.7	8.3	7.6	.7	7.8	7.3
1990	2.7	8.0	7.2	.8	7.6	6.9
1995	1.8	6.2	5.2	1.0	6.7	6.0
2000	2.1	6.0	5.0	1.0	6.6	6.0
CBO: [3]						
1982	−1.3	6.5	6.1	.4	11.3	9.3
1983	3.6	5.6	4.9	.7	11.0	8.8
1984	3.7	6.7	5.3	1.4	10.0	8.2
1985	3.7	7.0	5.8	1.2	8.9	7.8
1986	3.6	6.9	5.6	1.3	8.1	7.4
1987	3.5	6.8	5.4	1.4	7.7	7.1
1988	3.4	6.9	5.4	1.5	7.7	6.8
1989	3.2	6.5	5.3	1.2	7.6	6.6
1990	3.1	6.5	5.2	1.3	7.4	6.5

[1] The real GNP (Gross National Product) is the total output of goods and services expressed in constant dollars.

[2] The difference between the percentage increase in average annual wages in covered employment and the percentage increase in the average annual CPI.

[3] Preliminary CBO estimates. Estimates for 1982 through 1985 based on economic assumptions used for the September 1982 CBO budget update. Projections for the remainder of the period are based on economic assumptions representing a quick return to a noncyclical trend growth path which incorporates the average post World War II productivity growth rate of approximately 2 percent per year. CBO interest rate forecast is for 3-month Treasury bills.

Source: Office of the Actuary, SSA, and CBO.

TABLE 53.—COMPARISON OF OASDI BENEFICIARIES AND COVERED WORKERS, 1945–2060

Calendar year	Covered workers (in thousands)	Beneficiaries (in thousands)			Covered workers per OASDI beneficiary	Beneficiaries per 100 covered workers
		OASI	DI	Total		
Past experience:						
1945	46,390	1,106	.....	1,106	41.9	2
1950	48,280	2,930	.....	2,930	16.5	6
1955	65,200	7,563	.....	7,563	8.6	12
1960	72,530	13,740	522	14,262	5.1	20
1965	80,680	18,509	1,648	20,157	4.0	25
1970	93,090	22,618	2,568	25,186	3.6	28
1975	100,200	26,998	4,125	31,123	3.2	31
1980	[1] 114,300	30,384	4,734	35,118	[1] 3.3	[1] 31
Optimistic:						
1982	116,004	31,476	4,370	35,845	3.2	31
1985	126,557	33,028	4,047	37,075	3.4	29
1990	137,093	36,069	4,053	40,122	3.4	29
1995	141,637	37,609	4,249	41,858	3.4	30
2000	146,513	38,585	4,803	43,388	3.4	30
2005	151,749	40,066	5,506	45,572	3.3	30
2010	155,761	43,234	6,140	49,374	3.2	32
2015	158,066	48,449	6,552	55,001	2.9	35
2020	159,891	54,608	6,722	61,330	2.6	38
2025	162,842	60,782	6,612	67,394	2.4	41
2030	167,424	64,647	6,404	71,051	2.4	42
2035	173,020	66,058	6,419	72,477	2.4	42
2040	178,967	65,587	6,679	72,266	2.5	40
2045	184,936	65,452	7,045	72,497	2.6	39
2050	191,223	66,554	7,289	73,843	2.6	39
2055	198,021	68,258	7,451	75,709	2.6	38
2060	205,183	69,974	7,676	77,650	2.6	38
Intermediate II–B:						
1982	115,308	31,483	4,374	35,857	3.2	31
1985	123,300	33,106	4,061	37,167	3.3	30
1990	132,410	36,428	4,138	40,566	3.3	31
1995	137,644	38,408	4,486	42,894	3.2	31
2000	142,248	39,814	5,191	45,005	3.2	32
2005	146,798	41,725	6,028	47,753	3.1	33
2010	149,515	45,359	6,748	52,107	2.9	35
2015	150,148	51,048	7,198	58,246	2.6	39
2020	149,873	57,753	7,361	65,114	2.3	43
2025	150,205	64,542	7,207	71,749	2.1	48
2030	151,750	69,138	6,934	76,072	2.0	50
2035	153,889	71,277	6,882	78,159	2.0	51
2040	156,015	71,440	7,061	78,501	2.0	50
2045	157,777	71,824	7,304	79,128	2.0	50
2050	159,545	73,034	7,380	80,414	2.0	50
2055	161,573	74,313	7,364	81,677	2.0	51
2060	163,778	75,215	7,410	82,625	2.0	50

TABLE 53.—COMPARISON OF OASDI BENEFICIARIES AND COVERED WORKERS, 1945–2060—Continued

Calendar year	Covered workers (in thousands)	Beneficiaries (in thousands)			Covered workers per OASDI beneficiary	Beneficiaries per 100 covered workers
		OASI	DI	Total		
Pessimistic:						
1982	115,178	31,496	4,376	35,872	3.2	31
1985	121,330	33,255	4,079	37,334	3.2	31
1990	130,300	37,125	4,246	41,371	3.1	32
1995	135,944	40,013	4,714	44,727	3.0	33
2000	140,370	42,415	5,560	47,975	2.9	34
2005	144,254	45,360	6,510	51,870	2.8	36
2010	145,600	50,080	7,293	57,373	2.5	39
2015	144,295	56,934	7,759	64,693	2.2	45
2020	141,475	64,913	7,898	72,811	1.9	51
2025	138,631	73,154	7,683	80,837	1.7	58
2030	136,560	79,327	7,324	86,651	1.6	63
2035	134,724	83,133	7,172	90,305	1.5	67
2040	132,593	84,945	7,214	92,159	1.4	70
2045	129,844	86,866	7,252	94,118	1.4	72
2050	126,971	89,022	7,071	96,093	1.3	76
2055	124,339	90,398	6,796	97,194	1.3	78
2060	121,968	90,672	6,587	97,259	1.3	80

[1] Preliminary. Based on 1982 Trustees' Report.

TABLE 54.—POPULATION AND DEPENDENCY RATIOS BY BROAD AGE GROUP, CALENDAR YEARS 1960–2060

Calendar year	Population (in thousands)				Dependency ratio	
	Under 20	20–64	65 and over	Total	Aged [1]	Total [2]
Past experience:						
1960	73,116	98,687	17,146	188,949	0.174	0.915
1965	79,931	104,112	18,963	203,006	.182	.950
1970	80,637	112,500	20,655	213,792	.184	.900
1975	77,947	122,036	23,092	223,075	.189	.828
1976	77,039	124,145	23,635	224,818	.190	.811
1977	76,420	126,200	24,166	226,787	.191	.797
1978	75,545	128,416	24,724	228,685	.193	.781
1979	74,734	130,579	25,328	230,640	.194	.766
1980	74,045	132,731	25,892	232,668	.195	.753
Optimistic:						
1985	72,544	142,471	28,638	243,653	.201	.710
1990	74,692	148,834	31,599	255,125	.212	.714
1995	78,055	154,233	33,712	266,001	.219	.725
2000	81,414	160,063	34,651	276,127	.216	.725
2005	83,580	167,312	35,578	286,470	.213	.712

TABLE 54.—POPULATION AND DEPENDENCY RATIOS BY BROAD AGE GROUP, CALENDAR YEARS 1960–2060—Continued

Calendar year	Population (in thousands)				Dependency ratio	
	Under 20	20–64	65 and over	Total	Aged [1]	Total [2]
2010	86,178	173,139	38,171	297,488	.220	.718
2015	89,789	175,977	42,975	308,741	.244	.754
2020	94,000	176,948	48,767	319,715	.276	.807
2025	97,720	177,582	54,917	330,220	.309	.860
2030	100,879	180,157	59,479	340,514	.330	.890
2035	104,208	185,911	60,772	350,891	.327	.887
2040	108,086	193,160	60,211	361,457	.312	.871
2045	112,347	200,747	59,218	372,312	.295	.855
2050	116,557	207,264	59,915	383,735	.289	.851
2055	120,567	214,037	61,497	396,101	.287	.851
2060	124,619	221,831	63,166	409,616	.285	.847
Intermediate II–A and II–B:						
1985	72,252	142,531	28,773	243,556	.202	.709
1990	73,529	149,044	32,106	254,678	.215	.709
1995	75,506	154,640	34,745	264,891	.225	.713
2000	77,001	160,695	36,251	273,947	.226	.705
2005	76,957	167,890	37,719	282,566	.225	.683
2010	77,273	173,062	40,846	291,182	.236	.683
2015	78,570	174,678	46,225	299,473	.265	.714
2020	80,376	173,902	52,653	306,931	.303	.765
2025	81,720	172,107	59,539	313,366	.346	.821
2030	82,453	171,598	64,925	318,977	.378	.859
2035	83,151	173,803	67,044	323,997	.386	.864
2040	84,235	177,012	67,257	328,504	.380	.856
2045	85,604	180,037	66,922	332,562	.372	.847
2050	86,889	181,582	67,942	336,412	.374	.853
2055	87,921	183,192	69,293	340,406	.378	.858
2060	88,862	185,627	70,327	344,816	.379	.858
Pessimistic:						
1985	71,868	142,644	29,033	243,545	.204	.707
1990	71,993	149,425	33,080	254,498	.221	.703
1995	72,129	155,355	36,747	264,231	.237	.701
2000	71,141	161,776	39,409	272,327	.244	.683
2005	68,182	168,966	42,034	279,181	.249	.652
2010	65,598	173,318	46,337	285,252	.267	.646
2015	64,138	173,331	52,970	290,439	.306	.676
2020	63,283	170,229	60,755	294,268	.357	.729
2025	62,211	165,202	69,170	296,584	.419	.795
2030	60,641	160,684	76,250	297,575	.475	.852
2035	58,922	158,429	80,126	297,477	.506	.878

TABLE 54.—POPULATION AND DEPENDENCY RATIOS BY BROAD AGE GROUP, CALENDAR YEARS 1960–2060—Continued

Calendar year	Population (in thousands)				Dependency ratio	
	Under 20	20–64	65 and over	Total	Aged [1]	Total [2]
2040	57,538	156,715	82,119	296,372	.524	.891
2045	56,488	154,324	83,473	294,285	.541	.907
2050	55,486	150,147	85,728	291,361	.571	.941
2055	54,347	146,106	87,430	287,883	.598	.970
2060	53,134	142,999	88,048	284,181	.616	.987

[1] Population aged 65 and over as ratio to population aged 20–64.
[2] Population aged 65 and over plus population under age 20 as ratio to population aged 20–64.
Based on 1982 Trustees' Report.

TABLE 55.—HISTORICAL AND PROJECTED FUTURE CHANGES IN LIFE EXPECTANCY AT BIRTH, 1940 TO 2040 [1]

Year	Male (years)	Female (years)
Life expectancy of person born in:		
1940	61.1	65.6
1950	65.3	70.9
1960	66.7	73.4
1980	69.8	77.7
1982	70.4	78.3
2000	72.9	81.1
2020	73.8	82.1
2040	74.6	83.1

[1] Based on intermediate II–B assumptions contained in the 1982 trustees report.

TABLE 56.—HISTORICAL AND PROJECTED FUTURE CHANGES IN LIFE EXPECTANCY OF AN AGE 65 RETIREE, 1940 TO 2040 [1]

Year	Male (years)	Female (years)
Life expectancy of worker retiring at 65 in:		
1940	12.0	13.7
1950	12.7	15.0
1960	13.0	16.1
1980	14.3	18.7
1982	14.5	19.1
2000	15.8	21.1
2020	16.4	22.0
2040	17.0	22.8

[1] Based on intermediate II–B assumptions contained in the 1982 Trustees' report.

TABLE 57.—FERTILITY AND MORTALITY ASSUMPTIONS, 1960–2055

Calendar year	Total fertility rate [1]	Age-adjusted mortality rate [2]	
		Male	Female
Past experience:			
1960	3.61	12.56	8.17
1965	2.88	12.49	7.73
1970	2.43	12.18	7.22
1975	1.77	11.09	6.38
1976	1.74	10.94	6.32
1977	1.79	10.69	6.13
1978	1.76	10.61	6.10
1979	1.81	10.27	5.88
1980	1.84	10.27	5.88
1981	1.86	10.12	5.77
Optimistic:			
1982	1.89	10.12	5.76
1983	1.91	10.04	5.71
1984	1.93	9.97	5.65
1985	1.96	9.89	5.59
1990	2.07	9.57	5.36
1995	2.18	9.35	5.21
2000	2.29	9.24	5.14
2005 and later	2.40	9.15	5.09
Intermediate II–B:			
1982	1.87	9.97	5.66
1983	1.88	9.82	5.54
1984	1.89	9.67	5.43
1985	1.90	9.52	5.32
1990	1.95	8.91	4.89
1995	2.00	8.51	4.63
2000	2.05	8.31	4.50
2005 and later	2.10	8.16	4.41
Pessimistic:			
1982	1.83	9.69	5.46
1983	1.83	9.39	5.24
1984	1.82	9.10	5.03
1985	1.82	8.81	4.82
1990	1.79	7.73	4.07
1995	1.76	7.06	3.64
2000	1.73	6.72	3.45
2005 and later	1.70	6.49	3.31

Based on 1982 Trustees' Reports.

TABLE 58.—OASDHI OUTGO AS A PERCENT OF GNP,[1] 1982–2060

Year	Intermediate II–B assumptions			Pessimistic assumptions		
	OASDI	HI [2]	OASDHI [2]	OASDI	HI	OASDHI
1982	5.15	1.30	6.45	5.18	NA	NA
1985	5.03	1.18	6.21	5.26	NA	NA
1990	4.93	1.49	6.42	5.37	NA	NA
1995	4.75	1.90	6.65	5.32	NA	NA
2000	4.48	2.19	6.67	5.14	NA	NA
2005	4.36	2.50	6.86	5.08	NA	NA
2010	4.51	2.82	7.33	5.33	NA	NA
2015	4.92	3.05	7.97	5.89	NA	NA
2020	5.44	3.35	8.79	6.63	NA	NA
2025	5.90	3.67	9.57	7.37	NA	NA
2030	6.09	3.90	9.99	7.87	NA	NA
2035	6.05	3.97	10.02	8.13	NA	NA
2040	5.86	3.94	9.80	8.22	NA	NA
2045	5.70	3.84	9.54	8.35	NA	NA
2050	5.61	3.76	9.37	8.52	NA	NA
2055	5.54	3.68	9.22	8.61	NA	NA
75-year average: 1982–2056	5.27	3.04	8.31	6.69	NA	NA

[1] Based on 1982 Trustees' report, alternative II–B assumptions. Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] HI estimates prepared by staff of the National Commission on Social Security Reform.

○

97TH CONGRESS
2D SESSION

H. R. 7457

To amend title II of the Social Security Act to make miscellaneous and technical improvements relating to cash management, gender-based distinctions, coverage, and other matters under the old-age, survivors, and disability insurance program.

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 21, (legislative day, DECEMBER 19), 1982

Mr. PICKLE introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend title II of the Social Security Act to make miscellaneous and technical improvements relating to cash management, gender-based distinctions, coverage, and other matters under the old-age, survivors, and disability insurance program.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SHORT TITLE

4 SECTION 1. This Act may be cited as the "Social Secu-
5 rity Miscellaneous and Technical Improvements Act of
6 1982".

1 TABLE OF CONTENTS

2 SEC. 2. The contents of this Act are as follows:

TABLE OF CONTENTS

Sec. 1. Short title.
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Sec. 102. Float periods.
Sec. 103. Interest on late State deposits.

TITLE II—ELIMINATION OF GENDER-BASED DISTINCTIONS

Sec. 201. Divorced husbands.
Sec. 202. Remarriage of surviving spouse before age 60.
Sec. 203. Illegitimate children.
Sec. 204. Transitional insured status.
Sec. 205. Equalization of benefits under section 228.
Sec. 206. Father's insurance benefits.
Sec. 207. Effect of marriage on childhood disability benefits and on other dependents' or survivors' benefits.
Sec. 208. Credit for certain military service.
Sec. 209. Conforming amendments.
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Sec. 302. Extension of coverage by international social security agreement.
Sec. 303. Foreign earned income exclusion from net self-employment income.
Sec. 304. Social security tax treatment of cash or deferred compensation arrangements.
Sec. 305. Treatment of pay after age 62 as wages.
Sec. 306. Payments under simplified employee pension plans excluded from wages for purposes of benefit computation.
Sec. 307. Effect of changes in names of State and local employee groups in Utah.
Sec. 308. Effective dates of international social security agreements.

TITLE IV—MISCELLANEOUS AND TECHNICAL AMENDMENTS

Sec. 401. Technical and conforming amendments to maximum family benefit provisions.
Sec. 402. Application of social security program to Northern Mariana Islands.
Sec. 403. Simplification of trust fund reimbursement computation with respect to benefits attributable to noncontributory wage credits for military service.
Sec. 404. Reduction from 72 to 70 of age beyond which no delayed retirement credits can be earned.
Sec. 405. Relaxation of insured status requirements for certain workers previously entitled to a period of disability.
Sec. 406. Protection of benefits of illegitimate children of disabled beneficiaries.

Sec. 407. Continuation of benefits of disabled widow or widower who marries a retired or disabled worker.
Sec. 408. One-month retroactivity of widow's and widower's insurance benefits.
Sec. 409. Nonassignability of benefits.
Sec. 410. Use of death certificates to prevent erroneous benefit payments to deceased individuals.

1 # TITLE I—CASH MANAGEMENT

2 ## ACCOUNTING FOR CERTAIN UNNEGOTIATED CHECKS FOR
3 ## BENEFITS UNDER THE SOCIAL SECURITY PROGRAM

4 SEC. 101. (a) Section 201 of the Social Security Act is
5 amended by adding at the end thereof the following new sub-
6 section:

7 "(m)(1) The Secretary of the Treasury shall implement
8 procedures to permit the identification of each check issued
9 for benefits under this title that has not been presented for
10 payment by the close of the twelfth month following the
11 month of its issuance.

12 "(2) The Secretary of the Treasury shall, on a monthly
13 basis, credit each of the Trust Funds for the amount of all
14 benefit checks drawn on such Trust Fund more than 12
15 months previously but not presented for payment and not
16 previously credited to such Trust Fund.

17 "(3) If a benefit check is presented for payment to the
18 Treasury and the amount thereof has been previously cred-
19 ited pursuant to paragraph (2) to one of the Trust Funds, the
20 Secretary of the Treasury shall nevertheless pay such check,
21 if otherwise proper, recharge such Trust Fund, and notify the
22 Secretary of Health and Human Services.

1 "(4) A benefit check bearing a current date may be
2 issued to an individual who did not negotiate the original
3 benefit check and who surrenders such check for cancellation
4 if the Secretary of the Treasury determines it is necessary to
5 effect proper payment of benefits.".

6 (b) The amendment made by subsection (a) shall apply
7 with respect to all checks for benefits under title II of the
8 Social Security Act which are issued on or after the first day
9 of the twenty-fourth month following the month in which this
10 Act is enacted.

11 (c)(1) The Secretary of the Treasury, within 60 days
12 after the end of the fiscal year in which this Act is enacted
13 and within 60 days after the end of each of the four succeed-
14 ing fiscal years, shall transfer from the general fund of the
15 Treasury to the Federal Old-Age and Survivors Insurance
16 Trust Fund and to the Federal Disability Insurance Trust
17 Fund such sums as may be necessary to reimburse such
18 Trust Funds in the total amount of all checks which he and
19 the Secretary of Health and Human Services jointly deter-
20 mine to be unnegotiated benefit checks as of the preceding
21 September 30. After any amounts authorized by this subsec-
22 tion have been transferred to a Trust Fund with respect to
23 any benefit check, the provisions of paragraphs (3) and (4) of
24 section 201(m) of the Social Security Act (as added by sub-
25 section (a) of this section) shall be applicable to such check.

1 (2) As used in paragraph (1), the term "unnegotiated
2 benefit checks" means checks for benefits under title II of the
3 Social Security Act which are issued prior to the twenty-
4 fourth month following the month in which this Act is en-
5 acted, which remain unnegotiated after the twelfth month fol-
6 lowing the date on which they were issued, and with respect
7 to which no transfers have previously been made in accord-
8 ance with the first sentence of such paragraph.

9 FLOAT PERIODS

10 SEC. 102. (a) The Secretary of Health and Human
11 Services and the Secretary of the Treasury shall jointly un-
12 dertake, as soon as possible after the date of the enactment of
13 this Act, a thorough study with respect to the period of time
14 (hereafter in this section referred to as the "float period")
15 between the issuance of checks from the general fund of the
16 Treasury in payment of monthly insurance benefits under
17 title II of the Social Security Act and the transfer to the
18 general fund from the Federal Old-Age and Survivors Insur-
19 ance Trust Fund or the Federal Disability Insurance Trust
20 Fund, as applicable, of the amounts necessary to compensate
21 the general fund for the issuance of such checks. Each such
22 Secretary shall consult the other regularly during the course
23 of the study and shall, as appropriate, provide the other with
24 such information and assistance as he may require.

25 (b) The study shall include—

1 (1) an investigation of the feasibility and desirabil-
2 ity of maintaining the float periods which are allowed
3 as of the date of the enactment of this section in the
4 procedures governing the payment of monthly insur-
5 ance benefits under title II of the Social Security Act,
6 and of the general feasibility and desirability of making
7 adjustments in such procedures with respect to float
8 periods; and

9 (2) a separate investigation of the feasibility and
10 desirability of providing, as a specific form of adjust-
11 ment in such procedures with respect to float periods,
12 for the transfer each day to the general fund of the
13 Treasury from the Federal Old-Age and Survivors In-
14 surance Trust Fund and the Federal Disability Insur-
15 ance Trust Fund, as appropriate, of amounts equal to
16 the amounts of the checks referred to in subsection (a)
17 which are paid by the Federal Reserve Banks on such
18 day.

19 (c) In conducting the study required by subsection (a),
20 the Secretaries shall consult, as appropriate, the Director of
21 the Office of Management and Budget, and the Director shall
22 provide the Secretaries with such information and assistance
23 as they may require. The Secretaries shall also solicit the
24 views of other appropriate officials and organizations.

1 (d)(1) Not later than six months after the date of the
2 enactment of this Act, the Secretaries shall submit to the
3 President and the Congress a report of the findings of the
4 investigation required by subsection (b)(1), and the Secretary
5 of the Treasury shall by regulation make such adjustments in
6 the procedures governing the payment of monthly insurance
7 benefits under title II of the Social Security Act with respect
8 to float periods (other than adjustments in the form described
9 in subsection (b)(2)) as may have been found in such investi-
10 gation to be necessary or appropriate.

11 (2) Not later than twelve months after the date of the
12 enactment of this Act, the Secretaries shall submit to the
13 President and the Congress a report of the findings of the
14 separate investigation required by subsection (b)(2), together
15 with their recommendations with respect thereto; and, to the
16 extent necessary or appropriate to carry out such recommen-
17 dations, the Secretary of the Treasury shall by regulation
18 make adjustments in the procedures with respect to float pe-
19 riods in the form described in such subsection.

20 INTEREST ON LATE STATE DEPOSITS

21 SEC. 103. (a) Section 218(j) of the Social Security Act
22 is amended by striking out "the rate of 6 per centum per
23 annum" and inserting in lieu thereof "a rate equal to the
24 coupon equivalent of the average yield in the 91-day Treas-

1 ury bill auction most recently preceding the due date of the
2 payment or payments involved,".

3 (b) The amendment made by subsection (a) shall apply
4 with respect to payments due for wages paid after December
5 31, 1983.

6 TITLE II—ELIMINATION OF GENDER-BASED
7 DISTINCTIONS

8 DIVORCED HUSBANDS

9 SEC. 201. (a)(1) Section 202(c)(1) of the Social Security
10 Act is amended, in the matter preceding subparagraph (A),
11 by inserting "and every divorced husband (as defined in sec-
12 tion 216(d))" before "of an individual" and by inserting "or
13 such divorced husband" after "if such husband".

14 (2) Section 202(c)(1) of such Act is further amended—

15 (A) by striking out "and" at the end of subpara-
16 graph (B);

17 (B) by redesignating subparagraph (C) as subpara-
18 graph (D), and by inserting after subparagraph (B) the
19 following new subparagraph:

20 "(C) in the case of a divorced husband, is not
21 married, and"; and

22 (C) by striking out the matter following subpara-
23 graph (D) (as so redesignated) and inserting in lieu
24 thereof the following:

1 "shall be entitled to a husband's insurance benefit for each
2 month, beginning with—
3 "(i) in the case of a husband or divorced husband
4 (as so defined) of an individual who is entitled to an
5 old-age insurance benefit, if such husband or divorced
6 husband has attained age 65, the first month in which
7 he meets the criteria specified in subparagraphs (A),
8 (B), (C), and (D), or
9 "(ii) in the case of a husband or divorced husband
10 (as so defined) of—
11 "(I) an individual entitled to old-age insur-
12 ance benefits, if such husband or divorced husband
13 has not attained age 65, or
14 "(II) an individual entitled to disability insur-
15 ance benefits,
16 the first month throughout which he is such a husband
17 or divorced husband and meets the criteria specified in
18 subparagraphs (B), (C), and (D) (if in such month he
19 meets the criterion specified in subparagraph (A)),
20 whichever is earlier, and ending with the month preceding
21 the month to which any of the following occurs:
22 "(E) he dies,
23 "(F) such individual dies,
24 "(G) in the case of a husband, they are divorced
25 and either (i) he has not attained age 62, or (ii) he has

1 attained age 62 but has not been married to such indi-
2 vidual for a period of 10 years immediately before the
3 divorce became effective,
4 "(H) in the case of a divorced husband, he mar-
5 ries a person other than such individual,
6 "(I) he becomes entitled to an old-age or disability
7 insurance benefit based on a primary insurance amount
8 which is equal to or exceeds one-half of the primary
9 insurance amount of such individual, or
10 "(J) such individual is not entitled to disability in-
11 surance benefits and is not entitled to old-age insur-
12 ance benefits.".
13 (3) Section 202(c)(3) of such Act is amended by insert-
14 ing "(or, in the case of a divorced husband, his former wife)"
15 before "for such month".
16 (4) Section 202(c) of such Act is further amended by
17 adding after paragraph (3) the following new paragraph:
18 "(4) In the case of any divorced husband who marries—
19 "(A) an individual entitled to benefits under sub-
20 section (b), (e), (g), or (h) of this section, or
21 "(B) an individual who has attained the age of 18
22 and is entitled to benefits under subsection (d), by
23 reason of paragraph (1)(B)(ii) thereof,
24 such divorced husband's entitlement to benefits under this
25 subsection, notwithstanding the provisions of paragraph (1)

1 (but subject to subsection (s)), shall not be terminated by
2 reason of such marriage.".
3 (5) Section 202(c)(2)(A) of such Act is amended by in-
4 serting "(or divorced husband)" after "payable to such hus-
5 band".
6 (6) Section 202(b)(3)(A) of such Act is amended by strik-
7 ing out "(f)" and inserting in lieu thereof "(c), (f),".
8 (7) Section 202(c)(1)(D) of such Act (as redesignated by
9 paragraph (2) of this subsection) is amended by striking out
10 "his wife" and inserting in lieu thereof "such individual".
11 (8) Section 202(d)(5)(A) of such Act is amended by in-
12 serting "(c)," after "(b),".
13 (b)(1) Section 202(f)(1) of such Act is amended, in the
14 matter preceding subparagraph (A), by inserting "and every
15 surviving divorced husband (as defined in section 216(d))"
16 before "of an individual" and by inserting "or such surviving
17 divorced husband" after "if such widower".
18 (2) Section 202(f)(1) of such Act is further amended by
19 striking out "his deceased wife" in subparagraph (D) and in
20 the matter following subparagraph (F) and inserting in lieu
21 thereof "such deceased individual".
22 (3) Paragraphs (3), (4), (6), and (7) of section 202(f) of
23 such Act are each amended by inserting "or surviving di-
24 vorced husband" after "widower" wherever it appears.

1 (4) Paragraph (3) of section 202(f) of such Act is further
2 amended by striking out "his deceased wife" in subparagraph
3 (A) and inserting in lieu thereof "such deceased individual",
4 and by striking out "wife" wherever it appears in subpara-
5 graph (B) and inserting in lieu thereof "individual".
6 (5) Section 202(f)(4) of such Act is amended—
7 (A) by striking out "remarries" and inserting in
8 lieu thereof "marries";
9 (B) by inserting "or a surviving divorced hus-
10 band," after "age 60,"; and
11 (C) by inserting "or surviving divorced husband's"
12 after "widower's".
13 (6) Section 202(e)(3)(A) of such Act is amended by strik-
14 ing out "(f)" and inserting in lieu thereof "(c), (f),".
15 (7) Section 202(g)(3)(A) of such Act is amended by in-
16 serting "(c)," before "(f),".
17 (8) Section 202(h)(4)(A) of such Act is amended by in-
18 serting "(c)," before "(e),".
19 (c)(1) Section 216(d) of such Act is amended by redes-
20 ignating paragraph (4) as paragraph (6), and by inserting
21 after paragraph (3) the following new paragraphs:
22 "(4) The term 'divorced husband' means a man divorced
23 from an individual, but only if he had been married to such
24 individual for a period of 10 years immediately before the
25 date the divorce became effective.

1 "(5) The term 'surviving divorced husband' means a
2 man divorced from an individual who has died, but only if he
3 had been married to the individual for a period of 10 years
4 immediately before the divorce became effective.".
5 (2) The heading of section 216(d) of such Act is amend-
6 ed to read as follows:
7 "Divorced Spouses; Divorce".
8 (d)(1) Section 205(b) of such Act is amended by insert-
9 ing "divorced husband," after "husband,", and by inserting
10 "surviving divorced husband," after "widower,".
11 (2) Section 205(c)(1)(C) of such Act is amended by in-
12 serting "surviving divorced husband," after "wife,".
13 REMARRIAGE OF SURVIVING SPOUSE BEFORE AGE 60
14 SEC. 202. Section 202(f)(1)(A) of the Social Security
15 Act is amended by striking out "has not remarried" and in-
16 serting in lieu thereof "is not married".
17 ILLEGITIMATE CHILDREN
18 SEC. 203. (a) Section 216(h)(3) of the Social Security
19 Act is amended by inserting "mother or" before "father"
20 wherever it appears.
21 (b) Section 216(h)(3)(A)(ii) of such Act is amended by
22 striking out all that follows "time" and inserting in lieu
23 thereof "such applicant's application for benefits was filed;".
24 (c) Section 216(h)(3)(B)(ii) of such Act is amended by
25 striking out "such period of disability began" and inserting in

1 lieu thereof "such applicant's application for benefits was
2 filed".

3 (d) Section 216(h)(3) of such Act is further amended—

4 (1) by striking out "his" wherever it appears and
5 inserting in lieu thereof "his or her"; and

6 (2) by striking out "he" in subparagraph (B) and
7 inserting in lieu thereof "he or she".

8 TRANSITIONAL INSURED STATUS

9 SEC. 204. (a) Section 227(a) of the Social Security Act
10 is amended—

11 (1) by striking out "wife" wherever it appears and
12 inserting in lieu thereof "spouse";

13 (2) by striking out "wife's" wherever it appears
14 and inserting in lieu thereof "spouse's";

15 (3) by striking out "she" wherever it appears and
16 inserting in lieu thereof "he or she";

17 (4) by striking out "his" and inserting in lieu
18 thereof "the"; and

19 (5) by inserting "or section 202(c)" after "section
20 202(b)" wherever it appears.

21 (b) Section 227(b) and section 227(c) of such Act are
22 amended—

23 (1) by striking out "widow" wherever it appears
24 and inserting in lieu thereof "surviving spouse";

1 (2) by striking out "widow's" wherever it appears
2 and inserting in lieu thereof "surviving spouse's";
3 (3) by striking out "her" wherever it appears and
4 inserting in lieu thereof "the"; and
5 (4) by inserting "or section 202(f)" after "section
6 202(e)" wherever it appears.
7 (c) Section 216 of such Act is amended by inserting
8 before subsection (b) the following new subsection:
9 "Spouse; Surviving Spouse
10 "(a)(1) The term 'spouse' means a wife as defined in
11 subsection (b) or a husband as defined in subsection (f).
12 "(2) The term 'surviving spouse' means a widow as de-
13 fined in subsection (c) or a widower as defined in subsection
14 (g).".
15 EQUALIZATION OF BENEFITS UNDER SECTION 228
16 SEC. 205. (a) Section 228(b) of the Social Security Act
17 is amended—
18 (1) by striking out "(1) Except as provided in
19 paragraph (2), the" and inserting in lieu thereof
20 "The"; and
21 (2) by striking out paragraph (2).
22 (b) Section 228(c)(2) of such Act is amended by striking
23 out "(B) the larger of" and all that follows and inserting in
24 lieu thereof "(B) the benefit amount as determined without
25 regard to this subsection.".

1 (c) Section 228(c)(3) of such Act is amended to read as
2 follows:
3 "(3) In the case of a husband or wife both of whom are
4 entitled to benefits under this section for any month, the
5 benefit amount of each spouse, after any reduction under
6 paragraph (1), shall be further reduced (but not below zero)
7 by the excess (if any) of (A) the total amount of any periodic
8 benefits under governmental pension systems for which the
9 other spouse is eligible for such month, over (B) the benefit
10 amount of such other spouse as determined after any reduc-
11 tion under paragraph (1).".
12 (d) Section 228 of such Act is further amended—
13 (1) by striking out "he" wherever it appears in
14 subsections (a) and (c)(1) and inserting in lieu thereof
15 "he or she"; and
16 (2) by striking out "his" in subsection (c)(4)(C)
17 and inserting in lieu thereof "his or her".
18 (e) The Secretary shall increase the amounts specified in
19 section 228 of the Social Security Act, as amended by this
20 section, to take into account any general benefit increases (as
21 referred to in section 215(i)(3) of such Act), and any increases
22 under section 215(i) of such Act, which have occurred after
23 June 1974 or may hereafter occur.

1 FATHER'S INSURANCE BENEFITS

2 SEC. 206. (a) Section 202(g) of the Social Security Act
3 is amended—

4 (1) by striking out "widow" wherever it appears
5 and inserting in lieu thereof "surviving spouse";

6 (2) by striking out "widow's" wherever it appears
7 and inserting in lieu thereof "surviving spouse's";

8 (3) by striking out "wife's insurance benefits" and
9 "he" in paragraph (1)(D) and inserting in lieu thereof
10 "a spouse's insurance benefit" and "such individual",
11 respectively;

12 (4) by striking out "her" wherever it appears and
13 inserting in lieu thereof "his or her";

14 (5) by striking out "she" wherever it appears and
15 inserting in lieu thereof "he or she";

16 (6) by striking out "mother" wherever it appears
17 and inserting in lieu thereof "parent";

18 (7) by inserting "or father's" after "mother's"
19 wherever it appears;

20 (8) by striking out "after August 1950"; and

21 (9) in paragraph (3)(A) (as amended by section
22 201(b)(7) of this Act)—

23 (A) by inserting "this subsection or" before
24 "subsection (a)"; and

1 (B) by striking out "(c)," and inserting in
2 lieu thereof "(b), (c), (e),".
3 (b) The heading of section 202(g) of such Act is amend-
4 ed by inserting "and Father's" after "Mother's".
5 (c) Section 216(d) of such Act (as amended by section
6 201(c)(1) of this Act) is further amended by redesignating
7 paragraph (6) as paragraph (8) and by inserting after para-
8 graph (5) the following new paragraphs:
9 "(6) The term 'surviving divorced father' means a man
10 divorced from an individual who has died, but only if (A) he is
11 the father of her son or daughter, (B) he legally adopted her
12 son or daughter while he was married to her and while such
13 son or daughter was under the age of 18, (C) she legally
14 adopted his son or daughter while he was married to her and
15 while such son or daughter was under the age of 18, or (D)
16 he was married to her at the time both of them legally adopt-
17 ed a child under the age of 18.
18 "(7) The term 'surviving divorced parent' means a sur-
19 viving divorced mother as defined in paragraph (3) of this
20 subsection or a surviving divorced father as defined in para-
21 graph (6).".
22 (d) Section 202(c)(1) of such Act (as amended by section
23 201(a) of this Act) is further amended by inserting "(subject
24 to subsection (s))" before "be entitled to" in the matter fol-
25 lowing subparagraph (D) and preceding subparagraph (E).

1 (e) Section 202(c)(1)(B) of such Act is amended by in-
2 serting after "62" the following: "or (in the case of a hus-
3 band) has in his care (individually or jointly with such individ-
4 ual) at the time of filing such application a child entitled to
5 child's insurance benefits on the basis of the wages and self-
6 employment income of such individual".

7 (f) Section 202(c)(1) of such Act (as amended by section
8 201(a) of this Act and the preceding provisions of this sec-
9 tion) is further amended by redesignating the new subpara-
10 graphs (I) and (J) as subparagraphs (J) and (K), respectively,
11 and by inserting after subparagraph (H) the following new
12 subparagraph:

13 "(I) in the case of a husband who has not attained
14 age 62, no child of such individual is entitled to a
15 child's insurance benefit,".

16 (g) Section 202(f)(1)(C) of such Act is amended by in-
17 serting "(i)" after "(C)", by inserting "or" after "223,", and
18 by adding at the end thereof the following new clause:

19 "(ii) was entitled, on the basis of such wages and
20 self-employment income, to father's insurance benefits
21 for the month preceding the month in which he at-
22 tained age 65, and".

23 (h) Section 202(f)(6) of such Act is amended by striking
24 out "or" at the end of subparagraph (A), by redesignating
25 subparagraph (B) as subparagraph (C), and by inserting im-

1 mediately after subparagraph (A) the following new subpara-
2 graph:
3 "(B) the last month for which he was entitled to
4 father's insurance benefits on the basis of the wages
5 and self-employment income of such individual, or".
6 (i) Section 203(f)(1)(F) of such Act is amended by strik-
7 ing out "section 202(b) (but only by reason of having a child
8 in her care within the meaning of paragraph (1)(B) of that
9 subsection)" and inserting in lieu thereof "section 202(b) or
10 (c) (but only by reason of having a child in his or her care
11 within the meaning of paragraph (1)(B) of subsection (b) or
12 (c), as may be applicable)".
13 EFFECT OF MARRIAGE ON CHILDHOOD DISABILITY BENE-
14 FITS AND ON OTHER DEPENDENTS' OR SURVIVORS'
15 BENEFITS
16 SEC. 207. (a) Subsections (b)(3), (d)(5), (e)(3), (g)(3), and
17 (h)(4) of section 202 of the Social Security Act (as amended
18 by the preceding provisions of this Act) are each amended by
19 striking out "; except that" and all that follows and inserting
20 in lieu thereof a period.
21 (b) The amendments made by subsection (a) shall apply
22 with respect to benefits under title II of the Social Security
23 Act for months after the month in which this Act is enacted,
24 but only in cases in which the "last month" referred to in the

1 provision amended is a month after the month in which this
2 Act is enacted.

3 CREDIT FOR CERTAIN MILITARY SERVICE

4 SEC. 208. Section 217(f) of the Social Security Act is
5 amended—

6 (1) by striking out "widow" each place it appears
7 and inserting in lieu thereof "surviving spouse"; and

8 (2) by striking out "his" and "her" wherever they
9 appear (except in clause (A) of paragraph (1)) and in-
10 serting in lieu thereof in each instance "his or her".

11 CONFORMING AMENDMENTS

12 SEC. 209. (a) Section 202(b)(3)(A) of the Social Security
13 Act (as amended by section 201(a)(6) of this Act) and section
14 202(e)(3)(A) of such Act (as amended by section 201(b)(6) of
15 this Act) are each further amended by inserting "(g)," after
16 "(f),".

17 (b) Section 202(q)(3) of such Act is amended by insert-
18 ing "or surviving divorced husband" after "widower" in sub-
19 paragraphs (E), (F), and (G).

20 (c) Section 202(q)(5) of such Act is amended—

21 (1) by inserting "or husband's" after "wife's"
22 wherever it appears;

23 (2) by striking out "her" in subparagraph (A)(i)
24 and inserting in lieu thereof "him or her";

1 (3) by striking out "her" the second place it ap-
2 pears in subparagraph (A)(ii) and inserting in lieu
3 thereof "the";
4 (4) by striking out "she" wherever it appears and
5 inserting in lieu thereof "he or she";
6 (5) by striking out "her" wherever it appears
7 (except where paragraphs (2) and (3) of this subsection
8 apply) and inserting in lieu thereof "his or her";
9 (6) by striking out "the woman" in subparagraph
10 (B)(ii) and "a woman" in subparagraph (C) and insert-
11 ing in lieu thereof "the individual" and "an individu-
12 al", respectively; and
13 (7) in subparagraph (D)—
14 (A) by inserting "or widower's" after
15 "widow's";
16 (B) by striking out "husband" wherever it
17 appears and inserting in lieu thereof "spouse";
18 (C) by striking out "husband's" wherever it
19 appears and inserting in lieu thereof "spouse's";
20 and
21 (D) by inserting "or father's" after "moth-
22 er's".
23 (d)(1) Section 202(q)(6)(A)(i) of such Act is amended by
24 striking out "or husband's" in subdivision (I), and by insert-
25 ing "or husband's" after "wife's" in subdivision (II).

1 (2) Section 202(q)(7) of such Act is amended—

2 (A) in subparagraph (B), by inserting "or hus-
3 band's" after "wife's", by striking out "she" and in-
4 serting in lieu thereof "such individual", and by insert-
5 ing "his or" before "her", and

6 (B) in subparagraph (D), by inserting "or widow-
7 er's" after "widow's".

8 (e)(1) Section 202(s)(1) of such Act is amended by in-
9 serting "(c)(1)," after "(b)(1),".

10 (2) Section 202(s)(2) of such Act is amended by inserting
11 "(c)(4)," after "(b)(3),".

12 (3) Section 202(s)(3) of such Act is amended by inserting
13 "(c)(4)," after "(b)(3),", and by inserting "(f)(4)," after
14 "(e)(3),".

15 (f) The third sentence of section 203(b) of such Act is
16 amended by inserting "or father's" after "mother's".

17 (g) Section 203(c) of such Act is amended to read as
18 follows:

19 "Deductions on Account of Noncovered Work Outside the
20 United States or Failure To Have Child in Care

21 "(c) Deductions, in such amounts and at such time or
22 times as the Secretary shall determine, shall be made from
23 any payment or payments under this title to which an indi-
24 vidual is entitled, until the total of such deductions equals

1 such individual's benefits or benefit under section 202 for any
2 month—
3 "(1) in which such individual is under the age of
4 seventy and for more than forty-five hours of which
5 such individual engaged in noncovered remunerative
6 activity outside the United States;
7 "(2) in which such individual, if a wife or husband
8 under age sixty-five entitled to a wife's or husband's
9 insurance benefit, did not have in his or her care (indi-
10 vidually or jointly with his or her spouse) a child of
11 such spouse entitled to a child's insurance benefit and
12 such wife's or husband's insurance benefit for such
13 month was not reduced under the provisions of section
14 202(q);
15 "(3) in which such individual, if a widow or wid-
16 ower entitled to a mother's or father's insurance bene-
17 fit, did not have in his or her care a child of his or her
18 deceased spouse entitled to a child's insurance benefit;
19 or
20 "(4) in which such an individual, if a surviving di-
21 vorced mother or father entitled to a mother's or fa-
22 ther's insurance benefit, did not have in his or her care
23 a child of his or her deceased former spouse who (A) is
24 his or her son, daughter, or legally adopted child and
25 (B) is entitled to a child's insurance benefit on the basis

1 of the wages and self-employment income of such de-
2 ceased former spouse.
3 For purposes of paragraphs (2), (3), and (4) of this subsection,
4 a child shall not be considered to be entitled to a child's in-
5 surance benefit for any month in which paragraph (1) of sec-
6 tion 202(s) applies or an event specified in section 222(b)
7 occurs with respect to such child. Subject to paragraph (3) of
8 such section 202(s), no deduction shall be made under this
9 subsection from any child's insurance benefit for the month in
10 which the child entitled to such benefit attained the age of
11 eighteen or any subsequent month; nor shall any deduction be
12 made under this subsection from any widow's insurance bene-
13 fit for any month in which the widow or surviving divorced
14 wife is entitled and has not attained age 65 (but only if she
15 became so entitled prior to attaining age 60), or from any
16 widower's insurance benefit for any month in which the wid-
17 ower or surviving divorced husband is entitled and has not
18 attained age 65 (but only if he became so entitled prior to
19 attaining age 60).".
20 (h) Section 203(d) of such Act is amended by inserting
21 "divorced husband," after "husband," in paragraph (1), and
22 by inserting "or father's" after "mother's" each place it ap-
23 pears in paragraph (2).

1 (i)(1) Section 205(b) of such Act (as amended by section
2 201(d)(1) of this Act) is further amended by inserting "surviv-
3 ing divorced father," after "surviving divorced mother,".
4 (2) Section 205(c)(1)(C) of such Act (as amended by sec-
5 tion 201(d)(2) of this Act) is further amended by inserting
6 "surviving divorced father," after "surviving divorced
7 mother,".
8 (j) Section 216(f)(3)(A) of such Act is amended by insert-
9 ing "(c)," before "(f)",
10 (k) Section 216(g)(6)(A) of such Act is amended by in-
11 serting "(c)," before "(f)".
12 (l) Section 222(b)(1) of such Act is amended by striking
13 out "or surviving divorced wife" and inserting in lieu thereof
14 ", surviving divorced wife, or surviving divorced husband".
15 (m) Section 222(b)(2) of such Act is amended by insert-
16 ing "or father's" after "mother's" wherever it appears.
17 (n) Section 222(b)(3) of such Act is amended by insert-
18 ing "divorced husband," after "husband,".
19 (o) Section 223(d)(2) of such Act is amended by striking
20 out "or widower" in subparagraphs (A) and (B) and inserting
21 in lieu thereof "widower, or surviving divorced husband".
22 (p) Section 225(a) of such Act is amended by inserting
23 "or surviving divorced husband" after "widower".
24 (q)(1) Section 226(e)(3) of such Act is amended to read
25 as follows:

1 "(3) For purposes of determining entitlement to hospital
2 insurance benefits under subsection (b), any disabled widow
3 aged 50 or older who is entitled to mother's insurance bene-
4 fits (and who would have been entitled to widow's insurance
5 benefits by reason of disability if she had filed for such
6 widow's benefits), and any disabled widower aged 50 or older
7 who is entitled to father's insurance benefits (and who would
8 have been entitled to widower's insurance benefits by reason
9 of disability if he had filed for such widower's benefits), shall,
10 upon application for such hospital insurance benefits be
11 deemed to have filed for such widow's or widower's insur-
12 ance benefits.".

13 (2) For purposes of determining entitlement to hospital
14 insurance benefits under section 226(e)(3) of such Act, as
15 amended by paragraph (1), an individual becoming entitled to
16 such hospital insurance benefits as a result of the amendment
17 made by such paragraph shall, upon furnishing proof of his or
18 her disability within twelve months after the month in which
19 this Act is enacted, under such procedures as the Secretary
20 of Health and Human Services may prescribe, be deemed to
21 have been entitled to the widow's or widower's benefits re-
22 ferred to in such section 226(e)(3), as so amended, as of the
23 time such individual would have been entitled to such
24 widow's or widower's benefits if he or she had filed a timely
25 application therefor.

1 EFFECTIVE DATE OF TITLE II

2 SEC. 210. (a) Except as otherwise specifically provided
3 in this title, the amendments made by this title apply only
4 with respect to monthly benefits payable under title II of the
5 Social Security Act for months after the month in which this
6 Act is enacted.

7 (b) Nothing in any amendment made by this title shall
8 be construed as affecting the validity of any benefit which
9 was paid, prior to the effective date of such amendment, as a
10 result of a judicial determination.

11 TITLE III—COVERAGE

12 COVERAGE OF EMPLOYEES OF FOREIGN AFFILIATES OF
13 AMERICAN EMPLOYERS

14 SEC. 301. (a)(1) Section 210(a) of the Social Security
15 Act is amended by striking out "of a domestic corporation (as
16 determined in accordance with section 7701 of the Internal
17 Revenue Code of 1954)" in the matter preceding paragraph
18 (1) and inserting in lieu thereof "of an American employer (as
19 defined in subsection (e))".

20 (2)(A) Section 3121(l) of the Internal Revenue Code of
21 1954 is amended—

22 (i) in the heading, by striking out "DOMESTIC
23 CORPORATIONS" and inserting in lieu thereof
24 "AMERICAN EMPLOYERS";

25 (ii) in paragraph (1)—

1 (I) in the matter preceding subparagraph
2 (A)—
3 (a) by striking out "any domestic corpo-
4 ration" and inserting in lieu thereof "any
5 American employer (as defined in subsection
6 (h))",
7 (b) by striking out "such corporation"
8 and inserting in lieu thereof "such employ-
9 er", and
10 (c) by striking out "such domestic cor-
11 poration" and inserting in lieu thereof "such
12 American employer", and
13 (II) in subparagraphs (A) and (B), by striking
14 out "the domestic corporation" wherever it ap-
15 pears and inserting in lieu thereof "the American
16 employer";
17 (iii) in paragraph (3)—
18 (I) by striking out "A DOMESTIC CORPORA-
19 TION" in the heading and inserting in lieu thereof
20 "AMERICAN EMPLOYER", and
21 (II) by striking out "the domestic corpora-
22 tion" wherever it appears and inserting in lieu
23 thereof "the American employer";
24 (iv) in the last sentence of paragraph (4) and in
25 the matter in paragraph (8) preceding subparagraph

1 (A), by striking out "a domestic corporation" and in-
2 serting in lieu thereof "an American employer";
3 (v) in paragraphs (4), (5), and (8), by striking out
4 "domestic corporation" wherever it appears (except
5 where clause (iv) of this subparagraph applies) and in-
6 serting in lieu thereof "American employer";
7 (vi) in paragraph (9)—
8 (I) by striking out "DOMESTIC CORPORA-
9 TION" in the heading and inserting in lieu thereof
10 "AMERICAN EMPLOYER", and
11 (II) by striking out "Each domestic corpora-
12 tion" and inserting in lieu thereof "Each Ameri-
13 can employer"; and
14 (vii) in paragraph (10), by striking out "on domes-
15 tic corporations" and inserting in lieu thereof "on
16 American employers".
17 (B) Section 6413(c)(2)(C) of such Code is amended by
18 striking out "domestic corporation" and inserting in lieu
19 thereof "American employer".
20 (C) Section 1402(b) of such Code is amended by striking
21 out "domestic corporations" and inserting in lieu thereof
22 "American employers".
23 (D) Section 406 of such Code is amended—

1 (i) in the heading of subsection (a), by striking out
2 "DOMESTIC CORPORATION" and inserting in lieu
3 thereof "AMERICAN EMPLOYER",
4 (ii) in subsection (a), by striking out "a domestic
5 corporation" and inserting in lieu thereof "an Ameri-
6 can employer (as defined in section 3121(h))";
7 (iii) in the remaining subsections, by striking out
8 "a domestic corporation" wherever it appears and in-
9 serting in lieu thereof "an American employer";
10 (iv) by striking out "such domestic corporation"
11 and "the domestic corporation" wherever they appear
12 and inserting in lieu thereof "such American employ-
13 er" and "the American employer", respectively;
14 (v) in subsection (c)(3), by striking out "another
15 corporation" and inserting in lieu thereof "another
16 trade or business"; and
17 (vi) in subsection (d)—
18 (I) in the matter preceding paragraph (1), by
19 striking out "another corporation" and inserting
20 in lieu thereof "a corporation", and
21 (II) in paragraph (1), by striking out "any
22 other corporation" and inserting in lieu thereof
23 "any other trade or business".
24 (b)(1) Section 210(a) of the Social Security Act (as
25 amended by subsection (a)(1) of this section) is further amend-

1 ed by striking out "subsidiary" wherever it appears in the
2 matter preceding paragraph (1) and inserting in lieu thereof
3 "affiliate".

4 (2)(A) Section 3121(l)(8) of the Internal Revenue Code
5 of 1954 is amended—

6 (i) in the heading, by striking out "SUBSIDIARY"
7 and inserting in lieu thereof "AFFILIATE";

8 (ii) in the matter preceding subparagraph (A), by
9 striking out "subsidiary" and inserting in lieu thereof
10 "affiliate";

11 (iii) in subparagraph (A), by striking out "corpora-
12 tion not less than 20 percent of the voting stock" and
13 inserting in lieu thereof "trade or business not less
14 than 10 percent"; and

15 (iv) by amending subparagraph (B) to read as fol-
16 lows:

17 "(B) a foreign trade or business that is
18 owned by or related to a foreign trade or business
19 described in subparagraph (A), if the percentage
20 of that ownership or relationship, when multiplied
21 by actual ownership percentage determined under
22 that subparagraph, is not less than 10 percent.".

23 (B)(i) Section 3121(l) of such Code (other than para-
24 graph (8)) is amended—

1 (I) by striking out "SUBSIDIARIES" in the head-
2 ing and inserting in lieu thereof "AFFILIATES";
3 (II) by striking out "SUBSIDIARIES" in the head-
4 ing of paragraph (1) and inserting in lieu thereof "AF-
5 FILIATES"; and
6 (III) by striking out "subsidiary" and "subsidiar-
7 ies" wherever they appear and inserting in lieu thereof
8 "affiliate" and "affiliates", respectively.
9 (ii) Section 3121(l) of such Code is further amended by
10 striking out "foreign corporation" wherever it appears in
11 paragraph (3) and inserting in lieu thereof "foreign trade or
12 business", and by striking out "foreign corporations" in para-
13 graph (9) and inserting in lieu thereof "foreign trades or busi-
14 nesses".
15 (C) Sections 6413(c)(2) and 6413(c)(2)(C) of such Code
16 are each amended by striking out "FOREIGN CORPORA-
17 TIONS" in the heading and inserting in lieu thereof "FOR-
18 EIGN TRADES OR BUSINESSES".
19 (D) Section 1402(b) of such Code is amended by striking
20 out "subsidiaries" and inserting in lieu thereof "affiliates".
21 (E)(i) Section 406 of such Code is amended—
22 (I) by striking out "**SUDSIDIARIES**" in the head-
23 ing and inserting in lieu thereof "**AFFILIATES**", and
24 (II) by striking out "foreign subsidiaries" and
25 "foreign subsidiary" wherever they appear and insert-

1 ing in lieu thereof "foreign affiliates" and "foreign af-
2 filiate", respectively.
3 (ii) The table of sections for subpart A of part I of sub-
4 chapter D of chapter 1 of such Code is amended by striking
5 out "subsidiaries" in the item relating to section 406 and
6 inserting in lieu thereof "affiliates".
7 (c) The amendments made by subsections (a) and (b)
8 shall be effective on the date of the enactment of this Act.
9 EXTENSION OF COVERAGE BY INTERNATIONAL SOCIAL
10 SECURITY AGREEMENT
11 SEC. 302. (a)(1) Section 210(a) of the Social Security
12 Act is amended, in the matter preceding paragraph (1)—
13 (A) by striking out "either" before "(A)", and
14 (B) by inserting before "; except" the following:
15 ", or (C) if it is service, regardless of where or by
16 whom performed, which is designated as employment
17 or recognized as equivalent to employment under an
18 agreement entered into under section 233".
19 (2) Section 3121(b) of the Internal Revenue Code of
20 1954 is amended, in the matter preceding paragraph (1)—
21 (A) by striking out "either" before "(A)", and
22 (B) by inserting before "; except" the following:
23 ", or (C) if it is service, regardless of where or by
24 whom performed, which is designated as employment
25 or recognized as equivalent to employment under an

1 agreement entered into under section 233 of the Social
2 Security Act".
3 (b)(1) Section 211(b) of the Social Security Act is
4 amended by inserting after "non-resident alien individual"
5 the following: ", except as provided by an agreement under
6 section 233".
7 (2) The first sentence of section 1402(b) of the Internal
8 Revenue Code of 1954 is amended by inserting after "non-
9 resident alien individual" the following: ", except as provided
10 by an agreement under section 233 of the Social Security
11 Act".
12 (c) The amendments made by this section shall be effec-
13 tive for taxable years beginning on or after the date of the
14 enactment of this Act.

15 FOREIGN EARNED INCOME EXCLUSION FROM NET SELF-
16 EMPLOYMENT INCOME

17 SEC. 303. (a) Section 211(a)(10) of the Social Security
18 Act is amended to read as follows:
19 "(10) In the case of an individual described in
20 section 911(d)(1)(B) of the Internal Revenue Code of
21 1954, the exclusion from gross income provided by
22 section 911(a)(1) of such Code shall not apply; and".
23 (b) The amendment made by subsection (a) shall apply
24 with respect to taxable years beginning after December 31,
25 1981.

1 SOCIAL SECURITY TAX TREATMENT OF CASH OR
2 DEFERRED COMPENSATION ARRANGEMENTS

3 SEC. 304. (a)(1) Section 209(e)(1) of the Social Security
4 Act is amended by inserting "a payment to a trust which is
5 part of a qualified cash or deferred arrangement (as defined in
6 section 401(k)(2) of the Internal Revenue Code of 1954) or
7 is" after "unless such payment is".

8 (2) Section 3121(a)(5)(A) of the Internal Revenue Code
9 of 1954 is amended by inserting "a payment to a trust which
10 is part of a qualified cash or deferred arrangement (as defined
11 in section 401(k)(2)) or is" after "unless such payment is".

12 (b) Section 402(a)(8) of the Internal Revenue Code of
13 1954 is amended by inserting "(other than section
14 3121(a)(5)(A))" after "For purposes of this title".

15 (c) The amendments made by this section shall apply
16 with respect to payments and contributions made in calendar
17 years beginning more than six months after the date of the
18 enactment of this Act.

19 TREATMENT OF PAY AFTER AGE 62 AS WAGES

20 SEC. 305. (a) Section 209 of the Social Security Act is
21 amended by striking out subsection (i).

22 (b) Section 3121(a) of the Internal Revenue Code of
23 1954 is amended by striking out paragraph (9).

1 (c) The amendments made by this section shall apply
2 with respect to calendar years beginning more than six
3 months after the date of the enactment of this Act.

4 PAYMENTS UNDER SIMPLIFIED EMPLOYEE PENSION PLANS
5 EXCLUDED FROM WAGES FOR PURPOSES OF BENEFIT
6 COMPUTATION

7 SEC. 306. (a) Section 209(e) of the Social Security Act
8 is amended by striking out "1954;" and inserting in lieu
9 thereof the following: "1954, or (5) under a simplified em-
10 ployee pension if, at the time of the payment, it is reasonable
11 to believe that the employee will be entitled to a deduction
12 under section 219 of the Internal Revenue Code of 1954 for
13 such payment;".

14 (b) The amendment made by subsection (a) shall apply
15 with respect to payments made after the date of the enact-
16 ment of this Act.

17 EFFECT OF CHANGES IN NAMES OF STATE AND LOCAL
18 EMPLOYEE GROUPS IN UTAH

19 SEC. 307. (a) Section 218(o) of the Social Security Act
20 is amended by adding at the end thereof the following new
21 sentence: "Coverage provided for in this subsection shall not
22 be affected by a subsequent change in the name of a group.".

23 (b) The amendment made by subsection (a) shall apply
24 with respect to name changes made before, on, or after the
25 date of the enactment of this section.

1 EFFECTIVE DATES OF INTERNATIONAL SOCIAL SECURITY
2 AGREEMENTS

3 SEC. 308. (a) Section 233(e)(2) of the Social Security
4 Act is amended by striking out "each House" and inserting
5 in lieu thereof "at least one House".

6 (b) The amendment made by subsection (a) shall be ef-
7 fective on the date of the enactment of this Act.

8 TITLE IV—MISCELLANEOUS AND TECHNICAL
9 AMENDMENTS

10 TECHNICAL AND CONFORMING AMENDMENTS TO MAXIMUM
11 FAMILY BENEFIT PROVISIONS

12 SEC. 401. (a)(1) Section 203(a)(3)(A) of the Social Secu-
13 rity Act is amended by striking out clause (ii) and inserting in
14 lieu thereof the following:

15 "(ii) an amount (I) initially equal to the product of
16 1.75 and the primary insurance amount that would be
17 computed under section 215(a)(1), for January of the
18 year determined for purposes of this clause under the
19 following two sentences, with respect to average in-
20 dexed monthly earnings equal to one-twelfth of the
21 contribution and benefit base determined for that year
22 under section 230, and (II) thereafter increased in ac-
23 cordance with the provisions of section 215(i)(2)(A)(ii).
24 The year established for purposes of clause (ii) shall be 1983
25 or, if it occurs later with respect to any individual, the year in

1 which occurred the month that the application of the reduc-
2 tion provisions contained in this subparagraph began with re-
3 spect to benefits payable on the basis of the wages and self-
4 employment income of the insured individual. If for any
5 month subsequent to the first month for which clause (ii) ap-
6 plies (with respect to benefits payable on the basis of the
7 wages and self-employment income of the insured individual)
8 the reduction under this subparagraph ceases to apply, then
9 the year determined under the preceding sentence shall be
10 redetermined (for purposes of any subsequent application of
11 this subparagraph with respect to benefits payable on the
12 basis of such wages and self-employment income) as though
13 this subparagraph had not been previously applicable.".
14 (2) Section 203(a)(7) of such Act is amended by striking
15 out everything that follows "shall be reduced to an amount
16 equal to" and inserting in lieu thereof "the amount deter-
17 mined in accordance with the provisions of paragraph
18 (3)(A)(ii) of this subsection, except that for this purpose the
19 references to subparagraph (A) in the last two sentences of
20 paragraph (3)(A) shall be deemed to be references to para-
21 graph (7).".
22 (b) Clause (A) in the last sentence of section 203(b) of
23 such Act is amended by striking out "penultimate sentence"
24 and inserting in lieu thereof "first sentence of paragraph (4)".

1 (c) The amendments made by subsection (a) shall be ef-
2 fective with respect to payments made for months after De-
3 cember 1983.

4 APPLICATION OF SOCIAL SECURITY PROGRAM TO
5 NORTHERN MARIANA ISLANDS

6 SEC. 402. Subsection (b) of section 606 of the Covenant
7 to Establish a Commonwealth of the Northern Mariana Is-
8 lands in Political Union With the United States of America,
9 approved by Public Law 94–241, is amended by striking out
10 "upon termination of the Trusteeship Agreement or" and in-
11 serting in lieu thereof "on January 1 of the first calendar
12 year following the termination of the Trusteeship Agreement
13 or upon".

14 SIMPLIFICATION OF TRUST FUND REIMBURSEMENT COM-
15 PUTATION WITH RESPECT TO BENEFITS ATTRIBUTA-
16 BLE TO NONCONTRIBUTORY WAGE CREDITS FOR MIL-
17 ITARY SERVICE

18 SEC. 403. (a) The first sentence of section 217(g)(1) of
19 the Social Security Act is amended by inserting before the
20 period at the end thereof the following: "; except that with
21 respect to benefits paid during any fiscal year beginning after
22 September 30, 1976, the Secretary shall exclude amounts
23 attributable to benefits paid during the fiscal year to an indi-
24 vidual on account of this section if benefits were also paid to

1 the individual during the fiscal year on account of section
2 229".

3 (b) Section 229(b) of such Act is amended—

4 (1) in clause (1), by inserting after the second
5 comma the following: "or from subsection (a) and sec-
6 tion 217 except insofar as those costs are included in
7 the Secretary's determination under section
8 217(g)(1),"; and

9 (2) by striking out the last sentence.

10 REDUCTION FROM 72 TO 70 OF AGE BEYOND WHICH NO
11 DELAYED RETIREMENT CREDITS CAN BE EARNED

12 SEC. 404. (a) Section 202(w) of the Social Security Act
13 is amended—

14 (1) in paragraph (2)(A), by striking out "age 72"
15 and inserting in lieu thereof "age 70"; and

16 (2) in paragraph (3), by striking out "age 72 after
17 1972" and inserting in lieu thereof "age 70".

18 (b) The amendments made by subsection (a) shall apply
19 with respect to individuals who attain age 70 after December
20 1982. For individuals who attain age 70 before January
21 1983, section 202(w) as in effect immediately before the en-
22 actment of the amendments made by this section shall apply,
23 except that no increment months as determined under such
24 section attributable to months after December 1982 shall
25 accrue.

1 RELAXATION OF INSURED STATUS REQUIREMENTS FOR
2 CERTAIN WORKERS PREVIOUSLY ENTITLED TO A
3 PERIOD OF DISABILITY

4 SEC. 405. (a) Section 216(i)(3) of the Social Security
5 Act is amended—

6 (1) by striking out the semicolon at the end of
7 clause (ii) of subparagraph (B) and inserting in lieu
8 thereof ", or";

9 (2) by inserting after clause (ii) of such subpara-
10 graph the following new clause:

11 "(iii) in the case of an individual (not otherwise
12 insured under clause (i)) who, by reason of clause (ii),
13 had a prior period of disability that began during a
14 period before the quarter in which he or she attained
15 age 31, not less than one-half of the quarters beginning
16 after such individual attained age 21 and ending with
17 such quarter are quarters of coverage, or (if the
18 number of quarters in such period is less than 12) not
19 less than 6 of the quarters in the 12-quarter period
20 ending with such quarter are quarters of coverage;";
21 and

22 (3) by adding at the end thereof the following new
23 sentence:

24 "For purposes of subparagraph (B) of this paragraph, when
25 the number of quarters in any period is an odd number, such

1 number shall be reduced by one, and a quarter shall not be
2 counted as part of any period if any part of such quarter was
3 included in a prior period of disability unless such quarter
4 was a quarter of coverage.".

5 (b) Section 223(c)(1)(B) of such Act is amended—

6 (1) by striking out the semicolon at the end of
7 clause (ii) and inserting in lieu thereof ", or"; and

8 (2) by inserting after clause (ii) the following new
9 clause:

10 "(iii) in the case of an individual (not other-
11 wise insured under clause (i)) who, by reason of
12 section 216(i)(3)(B)(ii), had a prior period of dis-
13 ability that began during a period before the quar-
14 ter in which he or she attained age 31, not less
15 than one-half of the quarters beginning after such
16 individual attained age 21 and ending with such
17 quarter are quarters of coverage, or (if the
18 number of quarters in such period is less than 12)
19 not less than 6 of the quarters in the 12-quarter
20 period ending with such quarter are quarters of
21 coverage;".

22 (c) The amendments made by this section shall be effec-
23 tive with respect to applications for disability insurance bene-
24 fits under section 223 of the Social Security Act, and for
25 disability determinations under section 216(i) of such Act,

1 filed after the date of the enactment of this Act, except that
2 no monthly benefits under title II of the Social Security Act
3 shall be payable or increased by reason of the amendments
4 made by this section for months before the month following
5 the month of enactment of this Act.

6 PROTECTION OF BENEFITS OF ILLEGITIMATE CHILDREN
7 OF DISABLED BENEFICIARIES

8 SEC. 406. (a) The last sentence of section 216(h)(3) of
9 the Social Security Act is amended by striking out "subpara-
10 graph (A)(i)" and inserting in lieu thereof "subparagraphs
11 (A)(i) and (B)(i)".

12 (b) The amendment made by subsection (a) shall be ef-
13 fective on the date of the enactment of this Act.

14 CONTINUATION OF BENEFITS OF DISABLED WIDOW OR
15 WIDOWER WHO MARRIES A RETIRED OR DISABLED
16 WORKER

17 SEC. 407. (a) Section 202(e)(3) of the Social Security
18 Act (as amended by sections 201(b)(6) and 211(a) of this Act)
19 is further amended—

20 (1) in subparagraph (A), by inserting "(a)," after
21 "subsection", and by striking out "or" the second
22 place it appears;

23 (2) by adding "or" after the comma at the end of
24 subparagraph (B); and

1 (3) by inserting immediately after subparagraph
2 (B) the following new subparagraph:
3 "(C) an individual entitled to benefits under sec-
4 tion 223(a),".
5 (b) Section 202(f)(4) of such Act (as amended by sections
6 201(b)(5) and 208(b) of this Act) is further amended—
7 (1) in subparagraph (A), by inserting "(a)," after
8 "subsection", and by striking out "or" the second
9 place it appears;
10 (2) in subparagraph (B) by adding "or" after the
11 comma at the end of subparagraph (B); and
12 (3) by inserting immediately after subparagraph
13 (B) the following new subparagraph:
14 "(C) an individual entitled to benefits under sec-
15 tion 223(a),".
16 (c) The amendments made by this section shall apply
17 with respect to benefits payable for months beginning after
18 the date of the enactment of this Act.
19 ONE-MONTH RETROACTIVITY OF WIDOW'S AND WIDOWER'S
20 INSURANCE BENEFITS
21 SEC. 408. (a) Section 202(j)(4)(B) of the Social Security
22 Act is amended—
23 (1) by redesignating clauses (iii) and (iv) as clauses
24 (iv) and (v), respectively; and

1 (2) by adding after clause (ii) the following new
2 clause:
3 "(iii) Subparagraph (A) does not apply to a benefit under
4 subsection (e) or (f) for the month immediately preceding the
5 month of application, if the insured individual died in that
6 preceding month.".
7 (b) The amendments made by subsection (a) shall apply
8 with respect to survivors whose applications for monthly
9 benefits are filed after the second month following the month
10 in which this Act is enacted.

11 NONASSIGNABILITY OF BENEFITS

12 SEC. 409. (a) Section 207 of the Social Security Act is
13 amended—
14 (1) by inserting "(a)" before "The right"; and
15 (2) by adding at the end thereof the following new
16 subsection:
17 "(b) No other provision of law, enacted before, on, or
18 after the date of the enactment of this section, may be con-
19 strued to limit, supersede, or otherwise modify the provisions
20 of this section except to the extent that it does so by express
21 reference to this section.".
22 (b) Section 459(a) of such Act is amended by inserting
23 "(including section 207)" after "any other provision of law".
24 (c) The amendments made by subsection (a) shall apply
25 only with respect to benefits payable or rights existing under

1 the Social Security Act on or after the date of the enactment
2 of this Act.

3 USE OF DEATH CERTIFICATES TO PREVENT ERRONEOUS
4 BENEFIT PAYMENTS TO DECEASED INDIVIDUALS

5 SEC. 410. Section 205 of the Social Security Act is
6 amended by adding at the end thereof the following new sub-
7 section:

8 "Use of Death Certificates To Correct Program Information

9 "(r)(1) The Secretary is authorized to establish a pro-
10 gram under which—

11 "(A) States (or political subdivisions thereof) vol-
12 untarily contract with the Secretary to furnish the Sec-
13 retary periodically with information (in a form estab-
14 lished by the Secretary in consultation with the States)
15 concerning individuals with respect to whom death cer-
16 tificates (or equivalent documents maintained by the
17 States or subdivisions) have been officially filed with
18 them;

19 "(B) the Secretary compares such information on
20 such individuals with information on such individuals in
21 the records being used in the administration of this
22 Act; and

23 "(C) the Secretary makes any appropriate correc-
24 tions in such records to accurately reflect the status of
25 such individuals.

1 "(2) Each State (or political subdivision thereof) which
2 furnishes the Secretary with information on records of deaths
3 in the State or subdivision under this subsection shall be paid
4 by the Secretary from amounts available for administration of
5 this Act the reasonable costs (established by the Secretary)
6 for transcribing and transmitting such information to the Sec-
7 retary.

8 "(3) In the case of individuals with respect to whom
9 benefits are provided by (or through) a Federal or State
10 agency other than under this Act, the Secretary may provide,
11 through a cooperative arrangement with such agency, for
12 carrying out the duties described in paragraph (1)(B) with
13 respect to such individuals if—

14 "(A) under such arrangement the agency provides
15 reimbursement to the Secretary for the reasonable cost
16 of carrying out such arrangement, and

17 "(B) such arrangement does not conflict with the
18 duties of the Secretary under paragraph (1).

19 "(4) Information furnished to the Secretary under this
20 subsection may not be used for any purpose other than the
21 purposes described in this subsection and is exempt from dis-
22 closure under section 552 of title 5, United States Code, and
23 from the requirements of section 552a of such title.".

O

98TH CONGRESS
1ST SESSION

H. R. 660

To amend title II of the Social Security Act to make miscellaneous and technical improvements relating to cash management, gender-based distinctions, coverage, and other matters under the old-age, survivors, and disability insurance program.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1983

Mr. PICKLE introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend title II of the Social Security Act to make miscellaneous and technical improvements relating to cash management, gender-based distinctions, coverage, and other matters under the old-age, survivors, and disability insurance program.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SHORT TITLE

4 SECTION 1. This Act may be cited as the "Social Secu-
5 rity Miscellaneous and Technical Improvements Act of
6 1983".

1 TABLE OF CONTENTS

2 SEC. 2. The contents of this Act are as follows:

TABLE OF CONTENTS

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TITLE II—ELIMINATION OF GENDER-BASED DISTINCTIONS

Sec. 201. Divorced husbands.
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Sec. 204. Transitional insured status.
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Sec. 306. Payments under simplified employee pension plans excluded from wages for purposes of benefit computation.
Sec. 307. Effect of changes in names of State and local employee groups in Utah.
Sec. 308. Effective dates of international social security agreements.

TITLE IV—MISCELLANEOUS AND TECHNICAL AMENDMENTS

Sec. 401. Technical and conforming amendments to maximum family benefit provisions.
Sec. 402. Application of social security program to Northern Mariana Islands.
Sec. 403. Simplification of trust fund reimbursement computation with respect to benefits attributable to noncontributory wage credits for military service.
Sec. 404. Reduction from 72 to 70 of age beyond which no delayed retirement credits can be earned.
Sec. 405. Relaxation of insured status requirements for certain workers previously entitled to a period of disability.
Sec. 406. Protection of benefits of illegitimate children of disabled beneficiaries.
Sec. 407. Continuation of benefits of disabled widow or widower who marries a retired or disabled worker.

Sec. 408. One-month retroactivity of widow's and widower's insurance benefits.
Sec. 409. Non-assignability of benefits.
Sec. 410. Use of death certificates to prevent erroneous benefit payments to deceased individuals.

1 # TITLE I—CASH MANAGEMENT

2 ## ACCOUNTING FOR CERTAIN UNNEGOTIATED CHECKS FOR
3 ## BENEFITS UNDER THE SOCIAL SECURITY PROGRAM

4 SEC. 101. (a) Section 201 of the Social Security Act is
5 amended by adding at the end thereof the following new sub-
6 section:

7 "(m)(1) The Secretary of the Treasury shall implement
8 procedures to permit the identification of each check issued
9 for benefits under this title that has not been presented for
10 payment by the close of the twelfth month following the
11 month of its issuance.

12 "(2) The Secretary of the Treasury shall, on a monthly
13 basis, credit each of the Trust Funds for the amount of all
14 benefit checks drawn on such Trust Fund more than 12
15 months previously but not presented for payment and not
16 previously credited to such Trust Fund.

17 "(3) If a benefit check is presented for payment to the
18 Treasury and the amount thereof has been previously cred-
19 ited pursuant to paragraph (2) to one of the Trust Funds, the
20 Secretary of the Treasury shall nevertheless pay such check,
21 if otherwise proper, recharge such Trust Fund, and notify the
22 Secretary of Health and Human Services.

1 "(4) A benefit check bearing a current date may be
2 issued to an individual who did not negotiate the original
3 benefit check and who surrenders such check for cancellation
4 if the Secretary of the Treasury determines it is necessary to
5 effect proper payment of benefits.".

6 (b) The amendment made by subsection (a) shall apply
7 with respect to all checks for benefits under title II of the
8 Social Security Act which are issued on or after the first day
9 of the twenty-fourth month following the month in which this
10 Act is enacted.

11 (c)(1) The Secretary of the Treasury, within sixty days
12 after the end of the fiscal year in which this Act is enacted
13 and within sixty days after the end of each of the four suc-
14 ceeding fiscal years, shall transfer from the general fund of
15 the Treasury to the Federal Old-Age and Survivors Insur-
16 ance Trust Fund and to the Federal Disability Insurance
17 Trust Fund such sums as may be necessary to reimburse
18 such Trust Funds in the total amount of all checks which he
19 and the Secretary of Health and Human Services jointly de-
20 termine to be unnegotiated benefit checks as of the preceding
21 September 30. After any amounts authorized by this subsec-
22 tion have been transferred to a Trust Fund with respect to
23 any benefit check, the provisions of paragraphs (3) and (4) of
24 section 201(m) of the Social Security Act (as added by sub-
25 section (a) of this section) shall be applicable to such check.

1 (2) As used in paragraph (1), the term "unnegotiated
2 benefit checks" means checks for benefits under title II of the
3 Social Security Act which are issued prior to the twenty-
4 fourth month following the month in which this Act is en-
5 acted, which remain unnegotiated after the twelfth month fol-
6 lowing the date on which they were issued, and with respect
7 to which no transfers have previously been made in accord-
8 ance with the first sentence of such paragraph.

9 FLOAT PERIODS

10 SEC. 102. (a) The Secretary of Health and Human
11 Services and the Secretary of the Treasury shall jointly un-
12 dertake, as soon as possible after the date of the enactment of
13 this Act, a thorough study with respect to the period of time
14 (hereafter in this section referred to as the "float period")
15 between the issuance of checks from the general fund of the
16 Treasury in payment of monthly insurance benefits under
17 title II of the Social Security Act and the transfer to the
18 general fund from the Federal Old-Age and Survivors Insur-
19 ance Trust Fund or the Federal Disability Insurance Trust
20 Fund, as applicable, of the amounts necessary to compensate
21 the general fund for the issuance of such checks. Each such
22 Secretary shall consult the other regularly during the course
23 of the study and shall, as appropriate, provide the other with
24 such information and assistance as he may require.

25 (b) The study shall include—

1 (1) an investigation of the feasibility and desirabil-
2 ity of maintaining the float periods which are allowed
3 as of the date of the enactment of this section in the
4 procedures governing the payment of monthly insur-
5 ance benefits under title II of the Social Security Act,
6 and of the general feasibility and desirability of making
7 adjustments in such procedures with respect to float
8 periods; and
9 (2) a separate investigation of the feasibility and
10 desirability of providing, as a specific form of adjust-
11 ment in such procedures with respect to float periods,
12 for the transfer each day to the general fund of the
13 Treasury from the Federal Old-Age and Survivors In-
14 surance Trust Fund and the Federal Disability Insur-
15 ance Trust Fund, as appropriate, of amounts equal to
16 the amounts of the checks referred to in subsection (a)
17 which are paid by the Federal Reserve Banks on such
18 day.
19 (c) In conducting the study required by subsection (a),
20 the Secretaries shall consult, as appropriate, the Director of
21 the Office of Management and Budget, and the Director shall
22 provide the Secretaries with such information and assistance
23 as they may require. The Secretaries shall also solicit the
24 views of other appropriate officials and organizations.

1 (d)(1) Not later than six months after the date of the
2 enactment of this Act, the Secretaries shall submit to the
3 President and the Congress a report of the findings of the
4 investigation required by subsection (b)(1), and the Secretary
5 of the Treasury shall by regulation make such adjustments in
6 the procedures governing the payment of monthly insurance
7 benefits under title II of the Social Security Act with respect
8 to float periods (other than adjustments in the form described
9 in subsection (b)(2)) as may have been found in such investi-
10 gation to be necessary or appropriate.

11 (2) Not later than twelve months after the date of the
12 enactment of this Act, the Secretaries shall submit to the
13 President and the Congress a report of the findings of the
14 separate investigation required by subsection (b)(2), together
15 with their recommendations with respect thereto; and, to the
16 extent necessary or appropriate to carry out such recommen-
17 dations, the Secretary of the Treasury shall by regulation
18 make adjustments in the procedures with respect to float pe-
19 riods in the form described in such subsection.

20 INTEREST ON LATE STATE DEPOSITS

21 SEC. 103. (a) Section 218(j) of the Social Security Act
22 is amended by striking out "the rate of 6 per centum per
23 annum" and inserting in lieu thereof "a rate equal to the
24 coupon equivalent of the average yield in the ninety-one-day

1 Treasury bill auction most recently preceding the due date of
2 the payment or payments involved,".

3 (b) The amendment made by subsection (a) shall apply
4 with respect to payments due for wages paid after December
5 31, 1983.

6 TITLE II—ELIMINATION OF GENDER-BASED
7 DISTINCTIONS

8 DIVORCED HUSBANDS

9 SEC. 201. (a)(1) Section 202(c)(1) of the Social Security
10 Act is amended, in the matter preceding subparagraph (A),
11 by inserting "and every divorced husband (as defined in sec-
12 tion 216(d))" before "of an individual" and by inserting "or
13 such divorced husband" after "if such husband".

14 (2) Section 202(c)(1) of such Act is further amended—

15 (A) by striking out "and" at the end of subpara-
16 graph (B);

17 (B) by redesignating subparagraph (C) as subpara-
18 graph (D), and by inserting after subparagraph (B) the
19 following new subparagraph:

20 "(C) in the case of a divorced husband, is not
21 married, and"; and

22 (C) by striking out the matter following subpara-
23 graph (D) (as so redesignated) and inserting in lieu
24 thereof the following:

1 "shall be entitled to a husband's insurance benefit for each
2 month, beginning with—
3 "(i) in the case of a husband or divorced husband
4 (as so defined) of an individual who is entitled to an
5 old-age insurance benefit, if such husband or divorced
6 husband has attained age 65, the first month in which
7 he meets the criteria specified in subparagraphs (A),
8 (B), (C), and (D), or
9 "(ii) in the case of a husband or divorced husband
10 (as so defined) of—
11 "(I) an individual entitled to old-age insur-
12 ance benefits, if such husband or divorced husband
13 has not attained age 65, or
14 "(II) an individual entitled to disability insur-
15 ance benefits,
16 the first month throughout which he is such a husband
17 or divorced husband and meets the criteria specified in
18 subparagraphs (B), (C), and (D) (if in such month he
19 meets the criterion specified in subparagraph (A)),
20 whichever is earlier, and ending with the month preceding
21 the month to which any of the following occurs:
22 "(E) he dies,
23 "(F) such individual dies,
24 "(G) in the case of a husband, they are divorced
25 and either (i) he has not attained age 62, or (ii) he has

1 attained age 62 but has not been married to such indi-
2 vidual for a period of 10 years immediately before the
3 divorce became effective,
4 "(H) in the case of a divorced husband, he mar-
5 ries a person other than such individual,
6 "(I) he becomes entitled to an old-age or disability
7 insurance benefit based on a primary insurance amount
8 which is equal to or exceeds one-half of the primary
9 insurance amount of such individual, or
10 "(J) such individual is not entitled to disability in-
11 surance benefits and is not entitled to old-age insur-
12 ance benefits.".
13 (3) Section 202(c)(3) of such Act is amended by insert-
14 ing "(or, in the case of a divorced husband, his former wife)"
15 before "for such month".
16 (4) Section 202(c) of such Act is further amended by
17 adding after paragraph (3) the following new paragraph:
18 "(4) In the case of any divorced husband who marries—
19 "(A) an individual entitled to benefits under sub-
20 section (b), (e), (g), or (h) of this section, or
21 "(B) an individual who has attained the age of 18
22 and is entitled to benefits under subsection (d), by
23 reason of paragraph (1)(B)(ii) thereof,
24 such divorced husband's entitlement to benefits under this
25 subsection, notwithstanding the provisions of paragraph (1)

1 (but subject to subsection (s)), shall not be terminated by
2 reason of such marriage.".

3 (5) Section 202(c)(2)(A) of such Act is amended by in-
4 serting "(or divorced husband)" after "payable to such hus-
5 band".

6 (6) Section 202(b)(3)(A) of such Act is amended by strik-
7 ing out "(f)" and inserting in lieu thereof "(c), (f),".

8 (7) Section 202(c)(1)(D) of such Act (as redesignated by
9 paragraph (2) of this subsection) is amended by striking out
10 "his wife" and inserting in lieu thereof "such individual".

11 (8) Section 202(d)(5)(A) of such Act is amended by in-
12 serting "(c)," after "(b),".

13 (b)(1) Section 202(f)(1) of such Act is amended, in the
14 matter preceding subparagraph (A), by inserting "and every
15 surviving divorced husband (as defined in section 216(d))"
16 before "of an individual" and by inserting "or such surviving
17 divorced husband" after "if such widower".

18 (2) Section 202(f)(1) of such Act is further amended by
19 striking out "his deceased wife" in subparagraph (D) and in
20 the matter following subparagraph (F) and inserting in lieu
21 thereof "such deceased individual".

22 (3) Paragraphs (3), (4), (6), and (7) of section 202(f) of
23 such Act are each amended by inserting "or surviving di-
24 vorced husband" after "widower" wherever it appears.

1 (4) Paragraph (3) of section 202(f) of such Act is further
2 amended by striking out "his deceased wife" in subparagraph
3 (A) and inserting in lieu thereof "such deceased individual",
4 and by striking out "wife" wherever it appears in subpara-
5 graph (B) and inserting in lieu thereof "individual".
6 (5) Section 202(f)(4) of such Act is amended—
7 (A) by striking out "remarries" and inserting in
8 lieu thereof "marries";
9 (B) by inserting "or a surviving divorced hus-
10 band," after "age 60,"; and
11 (C) by inserting "or surviving divorced husband's"
12 after "widower's".
13 (6) Section 202(e)(3)(A) of such Act is amended by strik-
14 ing out "(f)" and inserting in lieu thereof "(c), (f),".
15 (7) Section 202(g)(3)(A) of such Act is amended by in-
16 serting "(c)," before "(f),".
17 (8) Section 202(h)(4)(A) of such Act is amended by in-
18 serting "(c)," before "(e),".
19 (c)(1) Section 216(d) of such Act is amended by redes-
20 ignating paragraph (4) as paragraph (6), and by inserting
21 after paragraph (3) the following new paragraphs:
22 "(4) The term 'divorced husband' means a man divorced
23 from an individual, but only if he had been married to such
24 individual for a period of 10 years immediately before the
25 date the divorce became effective.

1 "(5) The term 'surviving divorced husband' means a
2 man divorced from an individual who has died, but only if he
3 had been married to the individual for a period of 10 years
4 immediately before the divorce became effective.".

5 (2) The heading of section 216(d) of such Act is amend-
6 ed to read as follows:

7 "Divorced Spouses; Divorce".

8 (d)(1) Section 205(b) of such Act is amended by insert-
9 ing "divorced husband," after "husband,", and by inserting
10 "surviving divorced husband," after "widower,".

11 (2) Section 205(c)(1)(C) of such Act is amended by in-
12 serting "surviving divorced husband," after "wife,".

13 REMARRIAGE OF SURVIVING SPOUSE BEFORE AGE 60

14 SEC. 202. Section 202(f)(1)(A) of the Social Security
15 Act is amended by striking out "has not remarried" and in-
16 serting in lieu thereof "is not married".

17 ILLEGITIMATE CHILDREN

18 SEC. 203. (a) Section 216(h)(3) of the Social Security
19 Act is amended by inserting "mother or" before "father"
20 wherever it appears.

21 (b) Section 216(h)(3)(A)(ii) of such Act is amended by
22 striking out all that follows "time" and inserting in lieu
23 thereof "such applicant's application for benefits was filed;".

24 (c) Section 216(h)(3)(B)(ii) of such Act is amended by
25 striking out "such period of disability began" and inserting in

1 lieu thereof "such applicant's application for benefits was
2 filed".

3 (d) Section 216(h)(3) of such Act is further amended—

4 (1) by striking out "his" wherever it appears and
5 inserting in lieu thereof "his or her"; and

6 (2) by striking out "he" in subparagraph (B) and
7 inserting in lieu thereof "he or she".

8 TRANSITIONAL INSURED STATUS

9 SEC. 204. (a) Section 227(a) of the Social Security Act
10 is amended—

11 (1) by striking out "wife" wherever it appears and
12 inserting in lieu thereof "spouse";

13 (2) by striking out "wife's" wherever it appears
14 and inserting in lieu thereof "spouse's";

15 (3) by striking out "she" wherever it appears and
16 inserting in lieu thereof "he or she";

17 (4) by striking out "his" and inserting in lieu
18 thereof "the"; and

19 (5) by inserting "or section 202(c)" after "section
20 202(b)" wherever it appears.

21 (b) Section 227(b) and section 227(c) of such Act are
22 amended—

23 (1) by striking out "widow" wherever it appears
24 and inserting in lieu thereof "surviving spouse";

1 (2) by striking out "widow's" wherever it appears
2 and inserting in lieu thereof "surviving spouse's";
3 (3) by striking out "her" wherever it appears and
4 inserting in lieu thereof "the"; and
5 (4) by inserting "or section 202(f)" after "section
6 202(e)" wherever it appears.
7 (c) Section 216 of such Act is amended by inserting
8 before subsection (b) the following new subsection:
9 "Spouse; Surviving Spouse
10 "(a)(1) The term 'spouse' means a wife as defined in
11 subsection (b) or a husband as defined in subsection (f).
12 "(2) The term 'surviving spouse' means a widow as de-
13 fined in subsection (c) or a widower as defined in subsection
14 (g).".
15 EQUALIZATION OF BENEFITS UNDER SECTION 228
16 SEC. 205. (a) Section 228(b) of the Social Security Act
17 is amended—
18 (1) by striking out "(1) Except as provided in
19 paragraph (2), the" and inserting in lieu thereof
20 "The"; and
21 (2) by striking out paragraph (2).
22 (b) Section 228(c)(2) of such Act is amended by striking
23 out "(B) the larger of" and all that follows and inserting in
24 lieu thereof "(B) the benefit amount as determined without
25 regard to this subsection.".

1 (c) Section 228(c)(3) of such Act is amended to read as
2 follows:
3 "(3) In the case of a husband or wife both of whom are
4 entitled to benefits under this section for any month, the
5 benefit amount of each spouse, after any reduction under
6 paragraph (1), shall be further reduced (but not below zero)
7 by the excess (if any) of (A) the total amount of any periodic
8 benefits under governmental pension systems for which the
9 other spouse is eligible for such month, over (B) the benefit
10 amount of such other spouse as determined after any reduc-
11 tion under paragraph (1).".
12 (d) Section 228 of such Act is further amended—
13 (1) by striking out "he" wherever it appears in
14 subsections (a) and (c)(1) and inserting in lieu thereof
15 "he or she"; and
16 (2) by striking out "his" in subsection (c)(4)(C)
17 and inserting in lieu thereof "his or her".
18 (e) The Secretary shall increase the amounts specified in
19 section 228 of the Social Security Act, as amended by this
20 section, to take into account any general benefit increases (as
21 referred to in section 215(i)(3) of such Act), and any increases
22 under section 215(i) of such Act, which have occurred after
23 June 1974 or may hereafter occur.

1 FATHER'S INSURANCE BENEFITS

2 SEC. 206. (a) Section 202(g) of the Social Security Act
3 is amended—

4 (1) by striking out "widow" wherever it appears
5 and inserting in lieu thereof "surviving spouse";

6 (2) by striking out "widow's" wherever it appears
7 and inserting in lieu thereof "surviving spouse's";

8 (3) by striking out "wife's insurance benefits" and
9 "he" in paragraph (1)(D) and inserting in lieu thereof
10 "a spouse's insurance benefit" and "such individual",
11 respectively;

12 (4) by striking out "her" wherever it appears and
13 inserting in lieu thereof "his or her";

14 (5) by striking out "she" wherever it appears and
15 inserting in lieu thereof "he or she";

16 (6) by striking out "mother" wherever it appears
17 and inserting in lieu thereof "parent";

18 (7) by inserting "or father's" after "mother's"
19 wherever it appears;

20 (8) by striking out "after August 1950"; and

21 (9) in paragraph (3)(A) (as amended by section
22 201(b)(7) of this Act)—

23 (A) by inserting "this subsection or" before
24 "subsection (a)"; and

1 (B) by striking out "(c)," and inserting in
2 lieu thereof "(b), (c), (e),".
3 (b) The heading of section 202(g) of such Act is amend-
4 ed by inserting "and Father's" after "Mother's".
5 (c) Section 216(d) of such Act (as amended by section
6 201(c)(1) of this Act) is further amended by redesignating
7 paragraph (6) as paragraph (8) and by inserting after para-
8 graph (5) the following new paragraphs:
9 "(6) The term 'surviving divorced father' means a man
10 divorced from an individual who has died, but only if (A) he is
11 the father of her son or daughter, (B) he legally adopted her
12 son or daughter while he was married to her and while such
13 son or daughter was under the age of 18, (C) she legally
14 adopted his son or daughter while he was married to her and
15 while such son or daughter was under the age of 18, or (D)
16 he was married to her at the time both of them legally adopt-
17 ed a child under the age of 18.
18 "(7) The term 'surviving divorced parent' means a sur-
19 viving divorced mother as defined in paragraph (3) of this
20 subsection or a surviving divorced father as defined in para-
21 graph (6).".
22 (d) Section 202(c)(1) of such Act (as amended by section
23 201(a) of this Act) is further amended by inserting "(subject
24 to subsection (s))" before "be entitled to" in the matter fol-
25 lowing subparagraph (D) and preceding subparagraph (E).

1 (e) Section 202(c)(1)(B) of such Act is amended by in-
2 serting after "62" the following: "or (in the case of a hus-
3 band) has in his care (individually or jointly with such individ-
4 ual) at the time of filing such application a child entitled to
5 child's insurance benefits on the basis of the wages and self-
6 employment income of such individual".

7 (f) Section 202(c)(1) of such Act (as amended by section
8 201(a) of this Act and the preceding provisions of this sec-
9 tion) is further amended by redesignating the new subpara-
10 graphs (I) and (J) as subparagraphs (J) and (K), respectively,
11 and by inserting after subparagraph (H) the following new
12 subparagraph:

13 "(I) in the case of a husband who has not attained
14 age 62, no child of such individual is entitled to a
15 child's insurance benefit,".

16 (g) Section 202(f)(1)(C) of such Act is amended by in-
17 serting "(i)" after "(C)", by inserting "or" after "223,", and
18 by adding at the end thereof the following new clause:

19 "(ii) was entitled, on the basis of such wages and
20 self-employment income, to father's insurance benefits
21 for the month preceding the month in which he at-
22 tained age 65, and".

23 (h) Section 202(f)(6) of such Act is amended by striking
24 out "or" at the end of subparagraph (A), by redesignating
25 subparagraph (B) as subparagraph (C), and by inserting im-

1 mediately after subparagraph (A) the following new subpara-
2 graph:

3 "(B) the last month for which he was entitled to
4 father's insurance benefits on the basis of the wages
5 and self-employment income of such individual, or".

6 (i) Section 203(f)(1)(F) of such Act is amended by strik-
7 ing out "section 202(b) (but only by reason of having a child
8 in her care within the meaning of paragraph (1)(B) of that
9 subsection)" and inserting in lieu thereof "section 202(b) or
10 (c) (but only by reason of having a child in his or her care
11 within the meaning of paragraph (1)(B) of subsection (b) or
12 (c), as may be applicable)".

13 EFFECT OF MARRIAGE ON CHILDHOOD DISABILITY BENE-
14 FITS AND ON OTHER DEPENDENTS' OR SURVIVORS'
15 BENEFITS

16 SEC. 207. (a) Subsections (b)(3), (d)(5), (e)(3), (g)(3), and
17 (h)(4) of section 202 of the Social Security Act (as amended
18 by the preceding provisions of this Act) are each amended by
19 striking out "; except that" and all that follows and inserting
20 in lieu thereof a period.

21 (b) The amendments made by subsection (a) shall apply
22 with respect to benefits under title II of the Social Security
23 Act for months after the month in which this Act is enacted,
24 but only in cases in which the "last month" referred to in the

1 provision amended is a month after the month in which this
2 Act is enacted.

3 CREDIT FOR CERTAIN MILITARY SERVICE

4 SEC. 208. Section 217(f) of the Social Security Act is
5 amended—

6 (1) by striking out "widow" each place it appears
7 and inserting in lieu thereof "surviving spouse"; and

8 (2) by striking out "his" and "her" wherever they
9 appear (except in clause (A) of paragraph (1)) and in-
10 serting in lieu thereof in each instance "his or her".

11 CONFORMING AMENDMENTS

12 SEC. 209. (a) Section 202(b)(3)(A) of the Social Security
13 Act (as amended by section 201(a)(6) of this Act) and section
14 202(e)(3)(A) of such Act (as amended by section 201(b)(6) of
15 this Act) are each further amended by inserting "(g)," after
16 "(f),".

17 (b) Section 202(q)(3) of such Act is amended by insert-
18 ing "or surviving divorced husband" after "widower" in sub-
19 paragraphs (E), (F), and (G).

20 (c) Section 202(q)(5) of such Act is amended—

21 (1) by inserting "or husband's" after "wife's"
22 wherever it appears;

23 (2) by striking out "her" in subparagraph (A)(i)
24 and inserting in lieu thereof "him or her";

(3) by striking out "her" the second place it appears in subparagraph (A)(ii) and inserting in lieu thereof "the";

(4) by striking out "she" wherever it appears and inserting in lieu thereof "he or she";

(5) by striking out "her" wherever it appears (except where paragraphs (2) and (3) of this subsection apply) and inserting in lieu thereof "his or her";

(6) by striking out "the woman" in subparagraph (B)(ii) and "a woman" in subparagraph (C) and inserting in lieu thereof "the individual" and "an individual", respectively; and

(7) in subparagraph (D)—

(A) by inserting "or widower's" after "widow's";

(B) by striking out "husband" wherever it appears and inserting in lieu thereof "spouse";

(C) by striking out "husband's" wherever it appears and inserting in lieu thereof "spouse's"; and

(D) by inserting "or father's" after "mother's".

(d)(1) Section 202(q)(6)(A)(i) of such Act is amended by striking out "or husband's" in subdivision (I), and by inserting "or husband's" after "wife's" in subdivision (II).

1 (2) Section 202(q)(7) of such Act is amended—

2 (A) in subparagraph (B), by inserting "or hus-
3 band's" after "wife's", by striking out "she" and in-
4 serting in lieu thereof "such individual", and by insert-
5 ing "his or" before "her", and

6 (B) in subparagraph (D), by inserting "or widow-
7 er's" after "widow's".

8 (e)(1) Section 202(s)(1) of such Act is amended by in-
9 serting "(c)(1)," after "(b)(1),".

10 (2) Section 202(s)(2) of such Act is amended by inserting
11 "(c)(4)," after "(b)(3),".

12 (3) Section 202(s)(3) of such Act is amended by inserting
13 "(c)(4)," after "(b)(3),", and by inserting "(f)(4)," after
14 "(e)(3),".

15 (f) The third sentence of section 203(b) of such Act is
16 amended by inserting "or father's" after "mother's".

17 (g) Section 203(c) of such Act is amended to read as
18 follows:

19 "Deductions on Account of Noncovered Work Outside the
20 United States or Failure to Have Child in Care

21 "(c) Deductions, in such amounts and at such time or
22 times as the Secretary shall determine, shall be made from
23 any payment or payments under this title to which an indi-
24 vidual is entitled, until the total of such deductions equals

1 such individual's benefits or benefit under section 202 for any
2 month—
3 "(1) in which such individual is under the age of
4 seventy and for more than forty-five hours of which
5 such individual engaged in noncovered remunerative
6 activity outside the United States;
7 "(2) in which such individual, if a wife or husband
8 under age sixty-five entitled to a wife's or husband's
9 insurance benefit, did not have in his or her care (indi-
10 vidually or jointly with his or her spouse) a child of
11 such spouse entitled to a child's insurance benefit and
12 such wife's or husband's insurance benefit for such
13 month was not reduced under the provisions of section
14 202(q);
15 "(3) in which such individual, if a widow or wid-
16 ower entitled to a mother's or father's insurance bene-
17 fit, did not have in his or her care a child of his or her
18 deceased spouse entitled to a child's insurance benefit;
19 or
20 "(4) in which such an individual, if a surviving di-
21 vorced mother or father entitled to a mother's or fa-
22 ther's insurance benefit, did not have in his or her care
23 a child of his or her deceased former spouse who (A) is
24 his or her son, daughter, or legally adopted child and
25 (B) is entitled to a child's insurance benefit on the basis

1 of the wages and self-employment income of such de-
2 ceased former spouse.
3 For purposes of paragraphs (2), (3), and (4) of this subsection,
4 a child shall not be considered to be entitled to a child's in-
5 surance benefit for any month in which paragraph (1) of sec-
6 tion 202(s) applies or an event specified in section 222(b)
7 occurs with respect to such child. Subject to paragraph (3) of
8 such section 202(s), no deduction shall be made under this
9 subsection from any child's insurance benefit for the month in
10 which the child entitled to such benefit attained the age of
11 eighteen or any subsequent month; nor shall any deduction be
12 made under this subsection from any widow's insurance bene-
13 fit for any month in which the widow or surviving divorced
14 wife is entitled and has not attained age 65 (but only if she
15 became so entitled prior to attaining age 60), or from any
16 widower's insurance benefit for any month in which the wid-
17 ower or surviving divorced husband is entitled and has not
18 attained age 65 (but only if he became so entitled prior to
19 attaining age 60).".
20 (h) Section 203(d) of such Act is amended by inserting
21 "divorced husband," after "husband," in paragraph (1), and
22 by inserting "or father's" after "mother's" each place it ap-
23 pears in paragraph (2).

1 (i)(1) Section 205(b) of such Act (as amended by section
2 201(d)(1) of this Act) is further amended by inserting "surviv-
3 ing divorced father," after "surviving divorced mother,".
4 (2) Section 205(c)(1)(C) of such Act (as amended by sec-
5 tion 201(d)(2) of this Act) is further amended by inserting
6 "surviving divorced father," after "surviving divorced
7 mother,".
8 (j) Section 216(f)(3)(A) of such Act is amended by insert-
9 ing "(c)," before "(f)",
10 (k) Section 216(g)(6)(A) of such Act is amended by in-
11 serting "(c)," before "(f)".
12 (l) Section 222(b)(1) of such Act is amended by striking
13 out "or surviving divorced wife" and inserting in lieu thereof
14 ", surviving divorced wife, or surviving divorced husband".
15 (m) Section 222(b)(2) of such Act is amended by insert-
16 ing "or father's" after "mother's" wherever it appears.
17 (n) Section 222(b)(3) of such Act is amended by insert-
18 ing "divorced husband," after "husband,".
19 (o) Section 223(d)(2) of such Act is amended by striking
20 out "or widower" in subparagraphs (A) and (B) and inserting
21 in lieu thereof "widower, or surviving divorced husband".
22 (p) Section 225(a) of such Act is amended by inserting
23 "or surviving divorced husband" after "widower".
24 (q)(1) Section 226(e)(3) of such Act is amended to read
25 as follows:

1 "(3) For purposes of determining entitlement to hospital
2 insurance benefits under subsection (b), any disabled widow
3 aged 50 or older who is entitled to mother's insurance bene-
4 fits (and who would have been entitled to widow's insurance
5 benefits by reason of disability if she had filed for such
6 widow's benefits), and any disabled widower aged 50 or older
7 who is entitled to father's insurance benefits (and who would
8 have been entitled to widower's insurance benefits by reason
9 of disability if he had filed for such widower's benefits), shall,
10 upon application for such hospital insurance benefits be
11 deemed to have filed for such widow's or widower's insur-
12 ance benefits.".

13 (2) For purposes of determining entitlement to hospital
14 insurance benefits under section 226(e)(3) of such Act, as
15 amended by paragraph (1), an individual becoming entitled to
16 such hospital insurance benefits as a result of the amendment
17 made by such paragraph shall, upon furnishing proof of his or
18 her disability within twelve months after the month in which
19 this Act is enacted, under such procedures as the Secretary
20 of Health and Human Services may prescribe, be deemed to
21 have been entitled to the widow's or widower's benefits re-
22 ferred to in such section 226(e)(3), as so amended, as of the
23 time such individual would have been entitled to such
24 widow's or widower's benefits if he or she had filed a timely
25 application therefor.

1 EFFECTIVE DATE OF TITLE II

2 SEC. 210. (a) Except as otherwise specifically provided
3 in this title, the amendments made by this title apply only
4 with respect to monthly benefits payable under title II of the
5 Social Security Act for months after the month in which this
6 Act is enacted.

7 (b) Nothing in any amendment made by this title shall
8 be construed as affecting the validity of any benefit which
9 was paid, prior to the effective date of such amendment, as a
10 result of a judicial determination.

11 TITLE III—COVERAGE

12 COVERAGE OF EMPLOYEES OF FOREIGN AFFILIATES OF
13 AMERICAN EMPLOYERS

14 SEC. 301. (a)(1) Section 210(a) of the Social Security
15 Act is amended by striking out "of a domestic corporation (as
16 determined in accordance with section 7701 of the Internal
17 Revenue Code of 1954)" in the matter preceding paragraph
18 (1) and inserting in lieu thereof "of an American employer (as
19 defined in subsection (e))".

20 (2)(A) Section 3121(l) of the Internal Revenue Code of
21 1954 is amended—

22 (i) in the heading, by striking out "DOMESTIC
23 CORPORATIONS" and inserting in lieu thereof
24 "AMERICAN EMPLOYERS";

25 (ii) in paragraph (1)—

1 (I) in the matter preceding subparagraph
2 (A)—
3 (a) by striking out "any domestic corpo-
4 ration" and inserting in lieu thereof "any
5 American employer (as defined in subsection
6 (h))",
7 (b) by striking out "such corporation"
8 and inserting in lieu thereof "such employ-
9 er", and
10 (c) by striking out "such domestic cor-
11 poration" and inserting in lieu thereof "such
12 American employer", and
13 (II) in subparagraphs (A) and (B), by striking
14 out "the domestic corporation" wherever it ap-
15 pears and inserting in lieu thereof "the American
16 employer";
17 (iii) in paragraph (3)—
18 (I) by striking out "A DOMESTIC CORPORA-
19 TION" in the heading and inserting in lieu thereof
20 "AMERICAN EMPLOYER", and
21 (II) by striking out "the domestic corpora-
22 tion" wherever it appears and inserting in lieu
23 thereof "the American employer";
24 (iv) in the last sentence of paragraph (4) and in
25 the matter in paragraph (8) preceding subparagraph

1 (A), by striking out "a domestic corporation" and in-
2 serting in lieu thereof "an American employer";
3 (v) in paragraphs (4), (5), and (8), by striking out
4 "domestic corporation" wherever it appears (except
5 where clause (iv) of this subparagraph applies) and in-
6 serting in lieu thereof "American employer";
7 (vi) in paragraph (9)—
8 (I) by striking out "DOMESTIC CORPORA-
9 TION" in the heading and inserting in lieu thereof
10 "AMERICAN EMPLOYER", and
11 (II) by striking out "Each domestic corpora-
12 tion" and inserting in lieu thereof "Each Ameri-
13 can employer"; and
14 (vii) in paragraph (10), by striking out "on domes-
15 tic corporations" and inserting in lieu thereof "on
16 American employers".
17 (B) Section 6413(c)(2)(C) of such Code is amended by
18 striking out "domestic corporation" and inserting in lieu
19 thereof "American employer".
20 (C) Section 1402(b) of such Code is amended by striking
21 out "domestic corporations" and inserting in lieu thereof
22 "American employers".
23 (D) Section 406 of such Code is amended—

1 (i) in the heading of subsection (a), by striking out
2 "DOMESTIC CORPORATION" and inserting in lieu
3 thereof "AMERICAN EMPLOYER",
4 (ii) in subsection (a), by striking out "a domestic
5 corporation" and inserting in lieu thereof "an Ameri-
6 can employer (as defined in section 3121(h))";
7 (iii) in the remaining subsections, by striking out
8 "a domestic corporation" wherever it appears and in-
9 serting in lieu thereof "an American employer";
10 (iv) by striking out "such domestic corporation"
11 and "the domestic corporation" wherever they appear
12 and inserting in lieu thereof "such American employ-
13 er" and "the American employer", respectively;
14 (v) in subsection (c)(3), by striking out "another
15 corporation" and inserting in lieu thereof "another
16 trade or business"; and
17 (vi) in subsection (d)—
18 (I) in the matter preceding paragraph (1), by
19 striking out "another corporation" and inserting
20 in lieu thereof "a corporation", and
21 (II) in paragraph (1), by striking out "any
22 other corporation" and inserting in lieu thereof
23 "any other trade or business".
24 (b)(1) Section 210(a) of the Social Security Act (as
25 amended by subsection (a)(1) of this section) is further amend-

1 ed by striking out "subsidiary" wherever it appears in the
2 matter preceding paragraph (1) and inserting in lieu thereof
3 "affiliate".

4 (2)(A) Section 3121(l)(8) of the Internal Revenue Code
5 of 1954 is amended—

6 (i) in the heading, by striking out "SUBSIDIARY"
7 and inserting in lieu thereof "AFFILIATE";

8 (ii) in the matter preceding subparagraph (A), by
9 striking out "subsidiary" and inserting in lieu thereof
10 "affiliate";

11 (iii) in subparagraph (A), by striking out "corpora-
12 tion not less than 20 percent of the voting stock" and
13 inserting in lieu thereof "trade or business not less
14 than 10 percent"; and

15 (iv) by amending subparagraph (B) to read as fol-
16 lows:

17 "(B) a foreign trade or business that is
18 owned by or related to a foreign trade or business
19 described in subparagraph (A), if the percentage
20 of that ownership or relationship, when multiplied
21 by actual ownership percentage determined under
22 that subparagraph, is not less than 10 percent.".

23 (B)(i) Section 3121(l) of such Code (other than para-
24 graph (8)) is amended—

1 (I) by striking out "SUBSIDIARIES" in the heading
2 and inserting in lieu thereof "AFFILIATES"; and
3 (II) by striking out "SUBSIDIARIES" in the head-
4 ing of paragraph (1) and inserting in lieu thereof "AF-
5 FILIATES"; and
6 (III) by striking out "subsidiary" and "subsidiar-
7 ies" wherever they appear and inserting in lieu thereof
8 "affiliate" and "affiliates", respectively.
9 (ii) Section 3121(l) of such Code is further amended by
10 striking out "foreign corporation" wherever it appears in
11 paragraph (3) and inserting in lieu thereof "foreign trade or
12 business", and by striking out "foreign corporations" in para-
13 graph (9) and inserting in lieu thereof "foreign trades or busi-
14 nesses".
15 (C) Sections 6413(c)(2) and 6413(c)(2)(C) of such Code
16 are each amended by striking out "FOREIGN CORPORA-
17 TIONS" in the heading and inserting in lieu thereof "FOR-
18 EIGN TRADES OR BUSINESSES".
19 (D) Section 1402(b) of such Code is amended by striking
20 out "subsidiaries" and inserting in lieu thereof "affiliates".
21 (E)(i) Section 406 of such Code is amended—
22 (I) by striking out "SUBSIDIARIES" in the head-
23 ing and inserting in lieu thereof "AFFILIATES", and
24 (II) by striking out "foreign subsidiaries" and
25 "foreign subsidiary" wherever they appear and insert-

1 ing in lieu thereof "foreign affiliates" and "foreign af-
2 filiate", respectively.
3 (ii) The table of sections for subpart A of part I of sub-
4 chapter D of chapter 1 of such Code is amended by striking
5 out "subsidiaries" in the item relating to section 406 and
6 inserting in lieu thereof "affiliates".
7 (c) The amendments made by subsections (a) and (b)
8 shall be effective on the date of the enactment of this Act.
9 EXTENSION OF COVERAGE BY INTERNATIONAL SOCIAL
10 SECURITY AGREEMENT
11 SEC. 302. (a)(1) Section 210(a) of the Social Security
12 Act is amended, in the matter preceding paragraph (1)—
13 (A) by striking out "either" before "(A)", and
14 (B) by inserting before "; except" the following:
15 ", or (C) if it is service, regardless of where or by
16 whom performed, which is designated as employment
17 or recognized as equivalent to employment under an
18 agreement entered into under section 233".
19 (2) Section 3121(b) of the Internal Revenue Code of
20 1954 is amended, in the matter preceding paragraph (1)—
21 (A) by striking out "either" before "(A)", and
22 (B) by inserting before "; except" the following:
23 ", or (C) if it is service, regardless of where or by
24 whom performed, which is designated as employment
25 or recognized as equivalent to employment under an

1 agreement entered into under section 233 of the Social
2 Security Act".

3 (b)(1) Section 211(b) of the Social Security Act is
4 amended by inserting after "non-resident alien individual"
5 the following: ", except as provided by an agreement under
6 section 233".

7 (2) The first sentence of section 1402(b) of the Internal
8 Revenue Code of 1954 is amended by inserting after "non-
9 resident alien individual" the following: ", except as provided
10 by an agreement under section 233 of the Social Security
11 Act".

12 (c) The amendments made by this section shall be effec-
13 tive for taxable years beginning on or after the date of the
14 enactment of this Act.

15 FOREIGN EARNED INCOME EXCLUSION FROM NET SELF-
16 EMPLOYMENT INCOME

17 SEC. 303. (a) Section 211(a)(10) of the Social Security
18 Act is amended to read as follows:

19 "(10) In the case of an individual described in
20 section 911(d)(1)(B) of the Internal Revenue Code of
21 1954, the exclusion from gross income provided by
22 section 911(a)(1) of such Code shall not apply; and".

23 (b) The amendment made by subsection (a) shall apply
24 with respect to taxable years beginning after December 31,
25 1981.

1 SOCIAL SECURITY TAX TREATMENT OF CASH OR
2 DEFERRED COMPENSATION ARRANGEMENTS

3 SEC. 304. (a)(1) Section 209(e)(1) of the Social Security
4 Act is amended by inserting "a payment to a trust which is
5 part of a qualified cash or deferred arrangement (as defined in
6 section 401(k)(2) of the Internal Revenue Code of 1954) or
7 is" after "unless such payment is".

8 (2) Section 3121(a)(5)(A) of the Internal Revenue Code
9 of 1954 is amended by inserting "a payment to a trust which
10 is part of a qualified cash or deferred arrangement (as defined
11 in section 401(k)(2)) or is" after "unless such payment is".

12 (b) Section 402(a)(8) of the Internal Revenue Code of
13 1954 is amended by inserting "(other than section
14 3121(a)(5)(A))" after "For purposes of this title".

15 (c) The amendments made by this section shall apply
16 with respect to payments and contributions made in calendar
17 years beginning more than six months after the date of the
18 enactment of this Act.

19 TREATMENT OF PAY AFTER AGE 62 AS WAGES

20 SEC. 305. (a) Section 209 of the Social Security Act is
21 amended by striking out subsection (i).

22 (b) Section 3121(a) of the Internal Revenue Code of
23 1954 is amended by striking out paragraph (9).

1 (c) The amendments made by this section shall apply
2 with respect to calendar years beginning more than six
3 months after the date of the enactment of this Act.

4 PAYMENTS UNDER SIMPLIFIED EMPLOYEE PENSION PLANS
5 EXCLUDED FROM WAGES FOR PURPOSES OF BENEFIT
6 COMPUTATION

7 SEC. 306. (a) Section 209(e) of the Social Security Act
8 is amended by striking out "1954;" and inserting in lieu
9 thereof the following: "1954, or (5) under a simplified em-
10 ployee pension if, at the time of the payment, it is reasonable
11 to believe that the employee will be entitled to a deduction
12 under section 219 of the Internal Revenue Code of 1954 for
13 such payment;".

14 (b) The amendment made by subsection (a) shall apply
15 with respect to payments made after the date of the enact-
16 ment of this Act.

17 EFFECT OF CHANGES IN NAMES OF STATE AND LOCAL
18 EMPLOYEE GROUPS IN UTAH

19 SEC. 307. (a) Section 218(o) of the Social Security Act
20 is amended by adding at the end thereof the following new
21 sentence: "Coverage provided for in this subsection shall not
22 be affected by a subsequent change in the name of a group.".

23 (b) The amendment made by subsection (a) shall apply
24 with respect to name changes made before, on, or after the
25 date of the enactment of this section.

1 EFFECTIVE DATES OF INTERNATIONAL SOCIAL SECURITY
2 AGREEMENTS

3 SEC. 308. (a) Section 233(e)(2) of the Social Security
4 Act is amended by striking out "each House" and inserting
5 in lieu thereof "at least one House".

6 (b) The amendment made by subsection (a) shall be ef-
7 fective on the date of the enactment of this Act.

8 TITLE IV—MISCELLANEOUS AND TECHNICAL
9 AMENDMENTS

10 TECHNICAL AND CONFORMING AMENDMENTS TO MAXIMUM
11 FAMILY BENEFIT PROVISIONS

12 SEC. 401. (a)(1) Section 203(a)(3)(A) of the Social Secu-
13 rity Act is amended by striking out clause (ii) and inserting in
14 lieu thereof the following:

15 "(ii) an amount (I) initially equal to the product of
16 1.75 and the primary insurance amount that would be
17 computed under section 215(a)(1), for January of the
18 year determined for purposes of this clause under the
19 following two sentences, with respect to average in-
20 dexed monthly earnings equal to one-twelfth of the
21 contribution and benefit base determined for that year
22 under section 230, and (II) thereafter increased in ac-
23 cordance with the provisions of section 215(i)(2)(A)(ii).
24 The year established for purposes of clause (ii) shall be 1983
25 or, if it occurs later with respect to any individual, the year in

1 which occurred the month that the application of the reduc-
2 tion provisions contained in this subparagraph began with re-
3 spect to benefits payable on the basis of the wages and self-
4 employment income of the insured individual. If for any
5 month subsequent to the first month for which clause (ii) ap-
6 plies (with respect to benefits payable on the basis of the
7 wages and self-employment income of the insured individual)
8 the reduction under this subparagraph ceases to apply, then
9 the year determined under the preceding sentence shall be
10 redetermined (for purposes of any subsequent application of
11 this subparagraph with respect to benefits payable on the
12 basis of such wages and self-employment income) as though
13 this subparagraph had not been previously applicable.".

14 (2) Section 203(a)(7) of such Act is amended by striking
15 out everything that follows "shall be reduced to an amount
16 equal to" and inserting in lieu thereof "the amount deter-
17 mined in accordance with the provisions of paragraph
18 (3)(A)(ii) of this subsection, except that for this purpose the
19 references to subparagraph (A) in the last two sentences of
20 paragraph (3)(A) shall be deemed to be references to para-
21 graph (7).".

22 (b) Clause (A) in the last sentence of section 203(b) of
23 such Act is amended by striking out "penultimate sentence"
24 and inserting in lieu thereof "first sentence of paragraph (4)".

1 (c) The amendments made by subsection (a) shall be ef-
2 fective with respect to payments made for months after De-
3 cember 1983.

4 APPLICATION OF SOCIAL SECURITY PROGRAM TO
5 NORTHERN MARIANA ISLANDS

6 SEC. 402. Subsection (b) of section 606 of the Covenant
7 to Establish a Commonwealth of the Northern Mariana Is-
8 lands in Political Union With the United States of America,
9 approved by Public Law 94–241, is amended by striking out
10 "upon termination of the Trusteeship Agreement or" and in-
11 serting in lieu thereof "on January 1 of the first calendar
12 year following the termination of the Trusteeship Agreement
13 or upon".

14 SIMPLIFICATION OF TRUST FUND REIMBURSEMENT COM-
15 PUTATION WITH RESPECT TO BENEFITS ATTRIBUTA-
16 BLE TO NONCONTRIBUTORY WAGE CREDITS FOR MIL-
17 ITARY SERVICE

18 SEC. 403. (a) The first sentence of section 217(g)(1) of
19 the Social Security Act is amended by inserting before the
20 period at the end thereof the following: "; except that with
21 respect to benefits paid during any fiscal year beginning after
22 September 30, 1976, the Secretary shall exclude amounts
23 attributable to benefits paid during the fiscal year to an indi-
24 vidual on account of this section if benefits were also paid to

1 the individual during the fiscal year on account of section
2 229".

3 (b) Section 229(b) of such Act is amended—

4 (1) in clause (1), by inserting after the second
5 comma the following: "or from subsection (a) and sec-
6 tion 217 except insofar as those costs are included in
7 the Secretary's determination under section
8 217(g)(1),"; and

9 (2) by striking out the last sentence.

10 REDUCTION FROM 72 TO 70 OF AGE BEYOND WHICH NO
11 DELAYED RETIREMENT CREDITS CAN BE EARNED

12 SEC. 404. (a) Section 202(w) of the Social Security Act
13 is amended—

14 (1) in paragraph (2)(A), by striking out "age 72"
15 and inserting in lieu thereof "age 70"; and

16 (2) in paragraph (3), by striking out "age 72 after
17 1972" and inserting in lieu thereof "age 70".

18 (b) The amendments made by subsection (a) shall apply
19 with respect to individuals who attain age 70 after December
20 1982. For individuals who attain age 70 before January
21 1983, section 202(w) as in effect immediately before the en-
22 actment of the amendments made by this section shall apply,
23 except that no increment months as determined under such
24 section attributable to months after December 1982 shall
25 accrue.

1 RELAXATION OF INSURED STATUS REQUIREMENTS FOR
2 CERTAIN WORKERS PREVIOUSLY ENTITLED TO A
3 PERIOD OF DISABILITY

4 SEC. 405. (a) Section 216(i)(3) of the Social Security
5 Act is amended—

6 (1) by striking out the semicolon at the end of
7 clause (ii) of subparagraph (B) and inserting in lieu
8 thereof ", or";

9 (2) by inserting after clause (ii) of such subpara-
10 graph the following new clause:

11 "(iii) in the case of an individual (not otherwise
12 insured under clause (i)) who, by reason of clause (ii),
13 had a prior period of disability that began during a
14 period before the quarter in which he or she attained
15 age 31, not less than one-half of the quarters beginning
16 after such individual attained age 21 and ending with
17 such quarter are quarters of coverage, or (if the
18 number of quarters in such period is less than 12) not
19 less than 6 of the quarters in the 12-quarter period
20 ending with such quarter are quarters of coverage;";
21 and

22 (3) by adding at the end thereof the following new
23 sentence:

24 "For purposes of subparagraph (B) of this paragraph, when
25 the number of quarters in any period is an odd number, such

1 number shall be reduced by one, and a quarter shall not be
2 counted as part of any period if any part of such quarter was
3 included in a prior period of disability unless such quarter
4 was a quarter of coverage.".

5 (b) Section 223(c)(1)(B) of such Act is amended—

6 (1) by striking out the semicolon at the end of
7 clause (ii) and inserting in lieu thereof ", or"; and

8 (2) by inserting after clause (ii) the following new
9 clause:

10 "(iii) in the case of an individual (not other-
11 wise insured under clause (i)) who, by reason of
12 section 216(i)(3)(B)(ii), had a prior period of dis-
13 ability that began during a period before the quar-
14 ter in which he or she attained age 31, not less
15 than one-half of the quarters beginning after such
16 individual attained age 21 and ending with such
17 quarter are quarters of coverage, or (if the
18 number of quarters in such period is less than 12)
19 not less than 6 of the quarters in the 12-quarter
20 period ending with such quarter are quarters of
21 coverage;".

22 (c) The amendments made by this section shall be effec-
23 tive with respect to applications for disability insurance bene-
24 fits under section 223 of the Social Security Act, and for
25 disability determinations under section 216(i) of such Act,

1 filed after the date of the enactment of this Act, except that
2 no monthly benefits under title II of the Social Security Act
3 shall be payable or increased by reason of the amendments
4 made by this section for months before the month following
5 the month of enactment of this Act.

6 PROTECTION OF BENEFITS OF ILLEGITIMATE CHILDREN
7 OF DISABLED BENEFICIARIES

8 SEC. 406. (a) The last sentence of section 216(h)(3) of
9 the Social Security Act is amended by striking out "subpara-
10 graph (A)(i)" and inserting in lieu thereof "subparagraphs
11 (A)(i) and (B)(i)".

12 (b) The amendment made by subsection (a) shall be ef-
13 fective on the date of the enactment of this Act.

14 CONTINUATION OF BENEFITS OF DISABLED WIDOW OR
15 WIDOWER WHO MARRIES A RETIRED OR DISABLED
16 WORKER

17 SEC. 407. (a) Section 202(e)(3) of the Social Security
18 Act (as amended by sections 201(b)(6) and 211(a) of this Act)
19 is further amended—

20 (1) in subparagraph (A), by inserting "(a)," after
21 "subsection", and by striking out "or" the second
22 place it appears;

23 (2) by adding "or" after the comma at the end of
24 subparagraph (B); and

1 (3) by inserting immediately after subparagraph
2 (B) the following new subparagraph:
3 "(C) an individual entitled to benefits under sec-
4 tion 223(a),".
5 (b) Section 202(f)(4) of such Act (as amended by sections
6 201(b)(5) and 208(b) of this Act) is further amended—
7 (1) in subparagraph (A), by inserting "(a)," after
8 "subsection", and by striking out "or" the second
9 place it appears;
10 (2) in subparagraph (B) by adding "or" after the
11 comma at the end of subparagraph (B); and
12 (3) by inserting immediately after subparagraph
13 (B) the following new subparagraph:
14 "(C) an individual entitled to benefits under sec-
15 tion 223(a),".
16 (c) The amendments made by this section shall apply
17 with respect to benefits payable for months beginning after
18 the date of the enactment of this Act.
19 ONE-MONTH RETROACTIVITY OF WIDOW'S AND WIDOWER'S
20 INSURANCE BENEFITS
21 SEC. 408. (a) Section 202(j)(4)(B) of the Social Security
22 Act is amended—
23 (1) by redesignating clauses (iii) and (iv) as clauses
24 (iv) and (v), respectively; and

1 (2) by adding after clause (ii) the following new
2 clause:
3 "(iii) Subparagraph (A) does not apply to a benefit under
4 subsection (e) or (f) for the month immediately preceding the
5 month of application, if the insured individual died in that
6 preceding month.".
7 (b) The amendments made by subsection (a) shall apply
8 with respect to survivors whose applications for monthly
9 benefits are filed after the second month following the month
10 in which this Act is enacted.

11 NONASSIGNABILITY OF BENEFITS

12 SEC. 409. (a) Section 207 of the Social Security Act is
13 amended—
14 (1) by inserting "(a)" before "The right"; and
15 (2) by adding at the end thereof the following new
16 subsection:
17 "(b) No other provision of law, enacted before, on, or
18 after the date of the enactment of this section, may be con-
19 strued to limit, supersede, or otherwise modify the provisions
20 of this section except to the extent that it does so by express
21 reference to this section.".
22 (b) Section 459(a) of such Act is amended by inserting
23 "(including section 207)" after "any other provision of law".
24 (c) The amendments made by subsection (a) shall apply
25 only with respect to benefits payable or rights existing under

1 the Social Security Act on or after the date of the enactment
2 of this Act.

3 USE OF DEATH CERTIFICATES TO PREVENT ERRONEOUS
4 BENEFIT PAYMENTS TO DECEASED INDIVIDUALS

5 SEC. 410. Section 205 of the Social Security Act is
6 amended by adding at the end thereof the following new sub-
7 section:

8 "Use of Death Certificates To Correct Program Information

9 "(r)(1) The Secretary is authorized to establish a pro-
10 gram under which—

11 "(A) States (or political subdivisions thereof) vol-
12 untarily contract with the Secretary to furnish the Sec-
13 retary periodically with information (in a form estab-
14 lished by the Secretary in consultation with the States)
15 concerning individuals with respect to whom death cer-
16 tificates (or equivalent documents maintained by the
17 States or subdivisions) have been officially filed with
18 them;

19 "(B) the Secretary compares such information on
20 such individuals with information on such individuals in
21 the records being used in the administration of this
22 Act; and

23 "(C) the Secretary makes any appropriate correc-
24 tions in such records to accurately reflect the status of
25 such individuals.

1 "(2) Each State (or political subdivision thereof) which
2 furnishes the Secretary with information on records of deaths
3 in the State or subdivision under this subsection shall be paid
4 by the Secretary from amounts available for administration of
5 this Act the reasonable costs (established by the Secretary)
6 for transcribing and transmitting such information to the
7 Secretary.

8 "(3) In the case of individuals with respect to whom
9 benefits are provided by (or through) a Federal or State
10 agency other than under this Act, the Secretary may provide,
11 through a cooperative arrangement with such agency, for
12 carrying out the duties described in paragraph (1)(B) with
13 respect to such individuals if—

14 "(A) under such arrangement the agency provides
15 reimbursement to the Secretary for the reasonable cost
16 of carrying out such arrangement, and

17 "(B) such arrangement does not conflict with the
18 duties of the Secretary under paragraph (1).

19 "(4) Information furnished to the Secretary under this
20 subsection may not be used for any purpose other than the
21 purposes described in this subsection and is exempt from dis-
22 closure under section 552 of title 5, United States Code, and
23 from the requirements of section 552a of such title.".

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REPORT OF THE
NATIONAL COMMISSION
ON
SOCIAL SECURITY
REFORM

JANUARY 1983

MEMBERS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Appointed by the President

Alan Greenspan, Chairman -- Chairman and President, Townsend-Greenspan and Company, New York, NY.

Robert A. Beck -- Chairman of the Board and Chief Executive Officer, Prudential Insurance Company of America, Newark, NJ.

Mary Falvey Fuller -- Management Consultant, San Francisco, CA (Member of 1979 Advisory Council on Social Security).

Alexander B. Trowbridge -- President, National Association of Manufacturers, Washington, DC.

Joe D. Waggonner, Jr. -- Consultant, Bossier Bank and Trust Company, Bossier City, LA (Member of Congress from Louisiana in 87th to 95th Congresses).

Appointed by the Majority Leader of the Senate, in consultation with Minority Leader

William Armstrong -- Senator from Colorado and Chairman of Subcommittee on Social Security, Committee on Finance.

Robert Dole -- Senator from Kansas and Chairman of Committee on Finance.

John Heinz -- Senator from Pennsylvania and Chairman of Special Committee on Aging.

Lane Kirkland -- President, American Federation of Labor-Congress of Industrial Organizations.

Daniel Patrick Moynihan -- Senator from New York and Ranking Minority Member of Subcommittee on Social Security, Committee on Finance.

Appointed by the Speaker of the House of Representatives, in consultation with the Minority Leader

William Archer -- Representative from Texas and Ranking Minority Member, Subcommittee on Social Security, Committee on Ways and Means.

Robert M. Ball -- Visiting Scholar, Center for the Study of Social Policy, Washington, DC (Commissioner of Social Security, 1962-73).

Barber Conable -- Representative from New York and Ranking Minority Member, Committee on Ways and Means.

Martha E. Keys -- Director of Educational Programs, The Association of Former Members of Congress, Washington, DC (Member of Congress from Kansas, in 94th and 95th Congresses, and Assistant Secretary of Health and Human Services, 1980-81).

Claude D. Pepper -- Representative from Florida and Chairman of Committee on Rules.

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NATIONAL COMMISSION ON SOCIAL SECURITY REFORM
736 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20503

January 20, 1983

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I hereby transmit to you the report of the bi-partisan National Commission on Social Security Reform, which has made an in-depth review of the financial condition of the Old-Age, Survivors, and Disability Insurance Trust Funds in both the short range and the long range. The results of our deliberations are contained in this report.

In accordance with Executive Order No. 12335, December 16, 1981, as amended, copies of this report have been sent to the Majority Leader of the Senate, the Speaker of the House of Representatives, and the Secretary of Health and Human Services.

Respectfully submitted,

Alan Greenspan

Alan Greenspan
Chairman

Enclosure

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Chapter 1

INTRODUCTION

On December 16, 1981, President Reagan promulgated Executive Order 12335, which established the National Commission on Social Security Reform. The National Commission was created as a result of the continuing deterioration of the financial position of the Old-Age and Survivors Insurance Trust Fund, the inability of the President and the Congress to agree to a solution, and the concern about eroding public confidence in the Social Security system.1/

The National Commission is composed of fifteen members, eight Republicans and seven Democrats. Five members were selected by the President, on a bi-partisan basis; five were selected by the Senate Majority Leader, in consultation with the Senate Minority Leader, on a bi-partisan basis; and five were selected by the Speaker of the House of Representatives, in consultation with the House Minority Leader, on a bi-partisan basis.

1/ Throughout this report, the term "Social Security" will be used to denote the combination of the Old-Age, Survivors, and Disability Insurance program (OASDI) and the Medicare program, which consists of the Hospital Insurance program (HI) and the Supplementary Medical Insurance program (SMI). The National Commission decided to limit its policy recommendations to the OASDI program. The statutory Advisory Council on Social Security, appointed by the Secretary of Health and Human Services in September 1982, is charged with studying the Medicare program.

The Executive Order provides that the National Commission should:

> ". . . review relevant analyses of the current and long-term financial condition of the Social Security trust funds; identify problems that may threaten the long-term solvency of such funds; analyze potential solutions to such problems that will both assure the financial integrity of the Social Security System and the provision of appropriate benefits; and provide appropriate recommendations to the Secretary of Health and Human Services, the President, and the Congress."

In carrying out its mandate, the National Commission met nine times, on approximately a monthly basis. Because of the brevity of the time in which to complete its work, the National Commission held no public hearings. However, it reviewed the results of the many hearings, studies, and reports of other public bodies, including Congress, the 1979 Advisory Council on Social Security, and the 1981 National Commission on Social Security. The National Commission on Social Security Reform sought the advice of a number of experts and thoroughly examined a wide variety of alternative approaches.

Chapter 2 presents the major findings and recommendations of the National Commission. Chapter 3 deals with the financial status of the Medicare program. Additional Statements of individual members appear in Chapter 4.

The appendices to this report contain the following materials: Executive Order 12335, establishing the National Commission; Executive Order 12397, modifying the original Executive Order by extending the reporting date by 15 days; Executive Order 12402, giving a further extension in the reporting date

(until January 20, 1983); the White House press release of December 16, 1981, announcing the membership of the National Commission; the Charter of the National Commission; the President's letter to the National Commission; a list of meetings held; a list of the technical memorandums prepared for the use of the members during their deliberations; a list of the prepared presentations made by experts who appeared before the National Commission; a roster of the staff; a detailed description of the financial status of the Social Security program; and a detailed listing of possible options and their cost effects and basic tables which served as background material for the meetings.

Chapter 2

FINDINGS AND RECOMMENDATIONS

The National Commission was assigned the critical job of assessing whether the OASDI program has financing problems in the short run and over the long-range future (as represented by the 75-year valuation period) and, if so, recommending how such problems could be resolved.

The National Commission has agreed that there is a financing problem for the OASDI program for both the short run, 1983-89 (as measured using pessimistic economic assumptions) and the long range, 1983-2056 (as measured by an intermediate cost estimate) and that action should be taken to strengthen the financial status of the program.1/ The National Commission recognized that, under the intermediate cost estimate, the financial status of the OASDI program in the 1990s and early 2000s will be favorable (i.e., income will significantly exceed outgo) -- see Table 7A in Appendix K. The National Commission also recognized that, under the intermediate cost estimate, the financial status of the HI program becomes increasingly unfavorable from 1990 until the end of the period for which the estimates are made -- see Table 7B in Appendix K.

1/ The assumptions underlying these cost estimates are summarized in Tables 12 and 13 of Appendix K.

The National Commission makes the following recommendations unanimously:

(1) The members of the National Commission believe that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles.* The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial need.**

(2) The National Commission recommends that, for purposes of considering the short-range financial status of the OASDI Trust Funds, $150-200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983-89.

(3) The National Commission finds that, for purposes of considering the long-range financial status of the OASDI Trust Funds, its actuarial

* See additional views of Commissioner Archer in Chapter 4.
** See additional views (with regard to the last point) of Commissioners Archer, Fuller, and Waggonner in Chapter 4.

imbalance for the 75-year valuation period is an average of 1.80% of taxable payroll.[2/]

The National Commission was able to reach a consensus for meeting the short-range and long-range financial requirements, by a vote of 12 to 3. The 12 members voting in favor of the "consensus" package were Commissioners Ball, Beck, Conable, Dole, Fuller, Greenspan, Heinz, Keys, Kirkland, Moynihan, Pepper, and Trowbridge; the 3 members voting against the "consensus" package were Commissioners Archer, Armstrong, and Waggonner.

The 12 members of the National Commission voting in favor of the "consensus" package agreed to a single set of proposals to meet the short-range deficit (with Commissioner Kirkland dissenting on the proposal to cover newly hired Federal employees). They further agreed that the long-range deficit should be reduced to approximately zero. The single set of recommendations would meet about two-thirds of the long-range financial requirements. Seven of the 12 members agreed that the remaining one-third of the long-range financial requirements should be met by a deferred, gradual increase in the normal retirement age, while the other 5 members agreed to an increase in the contribution rates in 2010 of slightly less than one-half percent (0.46%) of covered earnings on the employer and the same amount on the employee, with the

2/ This figure is the actuarial lack of balance according to the intermediate (Alternative II-B) cost estimate in the 1982 Trustees Report, after adjustment for the effects of legislation and the actual benefit increase for June 1982.

employee's share of the increase offset by a refundable income-tax credit (see the statements in Chapter 4 for a presentation of these approaches).

Various possible short-range and long-range financing options are displayed in the Commission's Background Book entitled Old-Age, Survivors, and Disability Insurance and Hospital Insurance Programs -- Actuarial Cost Estimates for OASDI and HI and for Various Possible Changes in OASDI and Historical Data for OASDI and HI, revised version, December 1982 (which is included in this report as Appendix K). The derivation and underlying basis of the additional financial resources needed in 1983-89, as stated in item (2), are described in detail on pages 16-21 of Appendix J.

Provisions of "Consensus" Package

Recommendations Nos. (4) to (16) describe the provisions of the "consensus" package. Table A presents the actuarial cost data for this package for both the short range (1983-89 in the aggregate) and the long range (the 75-year valuation period, ending with 2056). Table B gives the year-by-year actuarial cost data for the short-range period. The cost estimates underlying these figures are based on economic assumptions which have been developed in recent weeks and which assume significantly lower levels of both price and wage inflation than does the Alternative III estimate in the 1982 OASDI Trustees Report (and even somewhat lower than in the Alternative II-B estimate).

Table A

SHORT-RANGE AND LONG-RANGE COST ANALYSIS OF OASDI PROPOSALS

Proposal	Short-Term Savings, 1983-89 (billions)	Long-Range Savings (percentage of payroll)
Cover nonprofit and new Federal employees[c/]	+$20	+.30%
Prohibit withdrawal of State and local government employees	+3	--
Taxation of benefits for higher-income persons	+30	+.60
Shift COLAs to calendar-year basis	+40	+.27
Eliminate windfall benefits for persons with pensions from noncovered employment	+.2	+.01
Continue benefits on remarriage for disabled widow(er)s and for divorced widow(er)s	-.1	--
Index deferred widow(er)'s benefits based on wages (instead of CPI)	-.2	-.05
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	-.1	-.01
Increase benefit rate for disabled widow(er)s aged 50-59 to 71½% of primary benefit	-1	-.01
Revise tax-rate schedule	+40	+.02
Revise tax basis for self-employed	+18	+.19
Reallocate OASDI tax rate between OASI and DI	--	--
Allow inter-fund borrowing from HI by OASDI	--	--
Credit the OASDI Trust Funds, by a lump-sum payment for cost of gratuitous military service wage credits and past unnegotiated checks	+18	--
Base automatic benefit increases on lower of CPI or wage increases after 1987 if fund ratio is under 20%, with catch-up if fund ratio exceeds 32%	--	--
Increase delayed retirement credit from 3% per year to 8%, beginning in 1990 and reaching 8% in 2010	--	-.10[a/]
Additional long-range changes[b/]	--	+.58
Total Effect	+168	+1.80

a/ This cost estimate assumes that retirement patterns would be only slightly affected by this change. If this change does result in significant changes in retirement behavior over time, the cost increase would be less (or possibly even a small savings could result).

b/ Alternate methods for obtaining this long-range savings are presented in the Additional Statements of the members (in Chapter 4).

c/ Includes effect of revised tax schedule.

NOTE: See text for complete description of the proposals.

Table B

YEAR-BY-YEAR SHORT-RANGE COST ANALYSIS OF OASDI PROPOSALS
(in billions)

Proposal	1983	1984	1985	1986	1987	1988	1989	1983-89
Cover nonprofit and new Federal workers[a/]	--	+$1	+$2	+$3	+$4	+$4	+$5	+$20
Prohibit withdrawal of State/local workers	--	*	*	*	+1	+1	+1	+3
Taxation of benefits for higher-income persons	--	+1	+4	+5	+6	+7	+8	+30
Shift COLAs to calendar-year basis	+$5	+5	+5	+6	+6	+6	+7	+40
Eliminate windfall benefits	--	*	*	*	*	*	*	+.2
Benefits for remarried widow(er)s	--	*	*	*	*	*	*	-.1
Index deferred widow(er)'s benefits by wages	--	*	*	*	*	*	*	-.2
Divorced spouse's benefits when husband eligible	--	*	*	*	*	*	*	-.1
Higher benefit rate for disabled widow(er)s	--	*	*	*	*	*	*	-1
Revised tax schedule	--	+9	*	--	--	+15	+16	+40
Revised tax basis for self-employed	--	+1	+3	+3	+3	+4	+5	+18
Credit trust funds for military wage credits	+20	-1	-1	*	*	*	*	+18
Total Effect	+25	+16	+13	+17	+20	+37	+41	+168

* Less than $500 million.

a/ Includes effect of revised tax schedule.

NOTE: See text for complete description of the proposals. Those having no short-range cost effect are not shown here. Totals do not always equal the sum of the individual items, due to rounding.

The "consensus" package would provide an estimated $168 billion in additional financial resources to the OASDI program in calendar years 1983-89. This amount is very close to the midpoint of the $150-200 billion range stated in Recommendation No. 2. Actually, because the economic assumptions which are used for this package involve a lower inflation rate as to both prices and wages than those which had been used earlier in the deliberations, the resulting $168 billion of additional financial resources is really relatively near the upper end of the desired range.

(4) The National Commission recommends that coverage under the OASDI program should be extended on a mandatory basis, as of January 1, 1984, to all newly hired civilian employees of the Federal Government.3/* The National Commission also recommends that OASDI-HI coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations.

It is important to note that covering additional groups of workers such as those specified in this recommendation not only results in a favorable cash-flow situation in the short run, but also has a favorable long-range effect. The

3/ Under present law, temporary Federal civilian employees are covered by the OASDI-HI program, and all other Federal civilian employees are covered under the HI program, beginning January 1, 1983. All persons in the armed forces are covered by the OASDI-HI program.

* See additional views of Commissioner Archer and additional views of Commissioner Kirkland in dissent, in Chapter 4.

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additional OASDI taxes paid on behalf of the newly-covered workers over the long run will exceed, on the average, the additional benefits which result from such employment[4/], assuming that the program is in long-range actuarial balance.

The National Commission believes that an independent supplemental retirement plan should be developed for the Federal new hires, which would be part of the Civil Service Retirement system (just as private employers have plans supplementing the OASDI program). It is important to note that present Federal employees will not be affected by this recommendation (and that the financing of their benefits over the long run will not be adversely affected).

(5) The National Commission recommends that State and local governments which have elected coverage for their employees under the OASDI-HI program should not be permitted to terminate such coverage in the future -- specifically, termination notices now pending would be invalid if the process of termination is not completed[5/] by the enactment date of the new legislation.

4/ The vast majority of the individuals involved would have qualified for sizable OASDI benefits as a result of other employment even if coverage were not extended to these two categories of workers. Also, they tend to have higher-than-average wages and, therefore, are entitled to less-heavily weighted benefits.

5/ Current law provides that withdrawal can occur, after advance notice of at least 2 years, at the end of the calendar year specified in the withdrawal notice. For example, a withdrawal notice filed in February 1981 would (if not withdrawn earlier by the State or local government entity) result in the process of termination being completed on January 1, 1984.

(6) The National Commission is concerned about the relatively large OASDI benefits that can accrue to individuals who spend most of their working careers in noncovered employment from which they derive pension rights, but who also become eligible for OASDI benefits as a result of relatively short periods in covered employment with other employers. Accordingly, the National Commission recommends that the method of computing benefits should be revised for persons who first become eligible for pensions from non-covered employment, after 1983, so as to eliminate "windfall" benefits.

The result of such a work history is to produce OASDI benefits that contain "windfall" elements -- the benefits payable are relatively high compared to the proportion of time spent and the OASDI taxes paid during covered employment. This results from the weighted benefit formula, which treats these individuals in the same manner as if they were long-service, low-earnings workers. Specifically, the National Commission believes that these individuals should receive benefits which are more nearly of a proportionate basis than the heavily-weighted benefits now provided.

There are various methods of eliminating the "windfall" portion of benefits (while still providing equitable, proportional benefits). One method would be to modify the benefit formula for determining the Primary Insurance Amount by making the second percentage factor (32%) be applicable to the lowest band of Average Indexed Monthly Earnings (instead of the 90% factor), but the reduction

in benefits would not be larger than the pension from non-covered employment. Another method would be to apply the present benefit formula to an earnings record which combines both covered earnings and also non-covered earnings in the future for the purpose of determining a replacement rate (i.e., the ratio of the benefit initially payable to previous earnings); then, that replacement rate would be applied to the average earnings based solely on covered employment. The short-range cost effect of these proposals -- applied only prospectively for new eligibles -- would be relatively small. The long-range cost effect would depend on the procedure used and on whether the recommended extension of coverage is adopted.

(7) The National Commission recommends that, beginning with 1984, 50% of OASDI benefits should be considered as taxable income for income-tax purposes for persons with Adjusted Gross Income (before including therein any OASDI benefits) of $20,000 if single and $25,000 if married. The proceeds from such taxation, as estimated by the Treasury Department, would be credited to the OASDI Trust Funds under a permanent appropriation.*

It is estimated that about 10% of OASDI beneficiaries would be affected by this provision. The National Commission noted that a "notch" is present in this provision in that those with Adjusted Gross Income of just under the limit of

* See additional views of Commissioner Archer in Chapter 4.

$20,000/$25,000 would have a larger total income (including OASDI benefits) than those with Adjusted Gross Income just over the limit. The National Commission points out the presence of this "notch" and trusts that it will be rectified in the legislative process.

(8) The National Commission recommends that the automatic cost-of-living adjustments of OASDI benefits should, beginning in 1983, be made applicable to the December benefit checks (payable early in January), rather than being first applicable to the June payments. The National Commission also recommends that the amount of the disregard of OASDI benefits for purposes of determining Supplemental Security Income payment levels should be increased from $20 a month to $50.

The increase in the CPI for purposes of the automatic adjustments for any particular year is currently measured from the first quarter of the previous year to the first quarter of that particular year. This procedure should continue to apply for the adjustment in benefit amounts for 1983 (payable in early January 1984). However, for subsequent years, the comparison should be made on a "third quarter to third quarter" basis.

The recommended increase in the amount of the disregard of OASDI benefits for SSI purposes is estimated to have an initial cost of about $750 million per year.

(9) The National Commission recommends that the following changes in benefit provisions which affect mainly women should be made:

(a) Present law permits the continuation of benefits for surviving spouses who remarry after age 60. This would also be done for (1) disabled surviving spouses aged 50-59, (2) disabled divorced surviving spouses aged 50-59, and (3) divorced surviving spouses aged 60 or over.

(b) Spouse benefits for divorced spouses would be payable at age 62 or over (subject to the requirement that the divorce has lasted for a significant period) if the former spouse is eligible for retirement benefits, whether or not they have been claimed (or they have been suspended because of substantial employment).

(c) Deferred surviving-spouse benefits would continue to be indexed as under present law, except that the indexing would be based on the increases in wages after the death of the worker (instead of by the increases in the CPI, as under present law).

(d) The benefit rate for disabled widows and widowers aged 50-59 at disablement would be the same as that for non-disabled widows and widowers first claiming benefits at age 60 (i.e., 71½% of the Primary Insurance Amount), instead of the lower rates under present law (gradually rising from 50% at age 50 to 71½% for

disablement at age 60). Such change would not only be applicable to new cases, but would also be applicable to beneficiaries of this category who are on the rolls on the effective date of the provision.

(10) The National Commission recommends that the OASDI tax schedule should be revised so that the 1985 rate would be moved to 1984, the 1985-87 rates would remain as scheduled under present law, part of the 1990 rate would be moved to 1988, and the rate for 1990 and after would remain unchanged. The HI tax rates for all years would remain unchanged. The resulting tax schedule would be as follows:

	Employer and Employee Rate (each)			
	OASDI		OASDI-HI	
Year	Present Law	Proposal	Present Law	Proposal
1983	5.4%	5.4%	6.7%	6.7%
1984	5.4	5.7	6.7	7.0
1985	5.7	5.7	7.05	7.05
1986	5.7	5.7	7.15	7.15
1987	5.7	5.7	7.15	7.15
1988-89	5.7	6.06	7.15	7.51
1990 and after	6.2	6.2	7.65	7.65

For 1984, a refundable income tax credit would be provided against the individual's Federal income-tax liability in the amount of the increase in the employee taxes over what would have been payable under present law.*

* See additional views of Commissioner Archer in Chapter 4.

(11) The National Commission recommends that the OASDI tax rates for self-employed persons should, beginning in 1984, be equal to the combined employer-employee rates. One-half of the OASDI taxes paid by self-employed persons should then be considered as a business expense for income-tax purposes (but not for purposes of determining the OASDI-HI tax).*

Under present law, self-employed persons pay an OASDI tax rate which is approximately equal to 75% of the combined employer-employee rate (exactly 75% for 1985 and after) and an HI tax rate which is 50% of the combined employer-employee rate. Also, under present law, self-employed persons cannot deduct, as business expenses, any OASDI-HI taxes paid. The reduction in income taxes payable by the self-employed during 1984-89 as a result of considering one-half of their OASDI taxes as a business expense is estimated to be about $12 billion.

(12) The National Commission recommends that the proposed OASDI tax rates should be allocated between the OASI and DI Trust Funds in a manner different from present law, in order that both funds will have about the same fund ratios.

(13) The National Commission recommends that the authority for inter-fund borrowing by the OASDI Trust Funds from the HI Trust Fund be authorized for 1983-87.

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* See additional views of Commissioner Archer in Chapter 4.

(14) The National Commission recommends that a lump-sum payment should be made to the OASDI Trust Funds from the General Fund of the Treasury for the following items:

(a) The present value of the estimated additional benefits arising from the gratuitous military service wage credits for service before 1957 (subject to subsequent adjustments if the experience deviates from the estimates).

(b) The amount of the combined employer-employee OASDI taxes on the gratuitous military service wage credits for service after 1956 and before 1983 (which were granted as a recognition of non-cash remuneration, and the cost of which is met, under present law, when additional benefits derived therefrom are paid). The payment would include interest, but would be reduced for any costs therefor which were paid in the past to the OASDI Trust Funds from the General Fund of the Treasury. In the future, the OASDI Trust Funds would be reimbursed on a current basis for such employer-employee taxes on such wage credits for service after 1982.

(c) The amount of uncashed OASDI checks issued in the past (which were charged against the trust funds at time of issue), estimated at about $300-400 million. (The problem of uncashed

checks in the future has been corrected as a result of changed procedures of the Treasury Department with regard to checks which are uncashed for a long time.)

(15) The National Commission recommends that, beginning with 1988, if the fund ratio[6/] of the combined OASDI Trust Funds as of the beginning of a year is less than 20.0% (except that, for 1988, the fund ratio to be considered would be that estimated for the end of that year), the automatic cost-of-living (COLA) adjustments of OASDI benefits should be based on the lower of the CPI increase or the increase in wages. If the fund ratio is 32.0% or more at the beginning of a year, payments will be made during the following year as supplements to monthly benefits otherwise payable to make up to individuals for any use of wage increases instead of CPI increases in the past, but only to the extent that sufficient funds are available over those needed to maintain a fund ratio of 32.0%.[7/]

6/ The fund ratio is the balance in the fund, exclusive of any outstanding loan from the HI Trust Fund, as a percentage of the estimated outgo from the fund in the year.

7/ When the fund ratio at the beginning of a particular year exceeds the trigger level of 32.0%, there would be a "catch-up" for those individuals on the benefit rolls at the time of the next COLA for whom some benefits in the past had been increased on the basis of wage increases instead of CPI increases. For each such person, the cumulative percentage benefit reduction up to the beginning of that particular year would be recorded. Such percentage reduction would be applicable as a percentage increase for the benefits payable for the first 12 months following the next COLA. If there were not sufficient funds available to provide a complete "catch-up", then the percentage increase in the benefits for the 12-month period would be pro-rated so that the estimated cost of this "catch-up" would equal the funds available.

This provision will serve as a stabilizer against the possibility of exceptionally poor economic performance over a period of time.

The increases in wages would be determined from the "SSA average wage index", the series used by the Social Security Administration in determining such elements of the program as the maximum taxable earnings base and the "bend points" in the formula for the Primary Insurance Amount. As an example, assuming that this new indexing method were applicable for 1995 (for the December checks), the COLA percentage would be the smaller of (1) the percentage increase in the CPI from the third quarter of 1994, to the third quarter of 1995 or (2) the percentage increase in the "SSA average wage index" from 1993 to 1994.

(16) The National Commission recommends that the Delayed-Retirement Credit should be increased from the present 3% (for persons who attained age 65 after 1981) to 8%, to be phased in over the period 1990-2010.

Under present law, persons who do not receive benefits after age 65 (essentially because of substantial employment of any kind) receive increases in their benefit (and in their widowed spouse's benefit, but not in any other auxiliary benefit) at the rate of 3% for each year of delay in receipt of benefits from age 65 through age 71.8/ Under the proposal, the Delayed-

8/ A technical error in the law results in age 71 being stipulated, rather than age 69; this provision should not be applicable after age 69, because the earnings test no longer applies beyond that age. This error should be corrected when the recommended change is legislated.

Retirement Credit for months in 1990 would be at the rate of 3¼%, those for 1991 would be at the rate of 3½%, etc. until an 8% rate would be reached in 2009 and after.

Coverage of Payments Under Salary-Reduction Plans

(17) The National Commission recommends that, in the case of salary-reduction plans qualifying under Section 401(k) of the Internal Revenue Code, any salary reduction thereunder shall not be treated as a reduction in the wages subject to OASDI-HI taxes.

Section 401(k) of the Internal Revenue Code permits employers to install "salary-reduction" plans, under which employees may elect to forego a salary increase or have part of their pay set aside in a tax-sheltered fund. Such deferred salary is neither subject to Federal income tax currently, nor is it subject to the OASDI-HI tax. The National Commission believes that, for both OASDI-HI tax and benefit credit purposes, any salary deferred under a plan meeting the requirements of Section 401(k) should be considered in exactly the same manner as cash remuneration.

This proposal will not produce significant additional income to the OASDI and HI programs currently, because not many of these salary-reduction plans have

yet been put into effect. However, if the recommendation is not followed, it is quite probable that many such plans will be instituted and that, in the absence of the action recommended, considerable decreases in OASDI-HI tax income to the trust funds and in benefit credits would result.

Fail-Safe Mechanisms

(18) The National Commission believes that, in addition to the stabilizing mechanism of Recommendation (15), a fail-safe mechanism is necessary so that benefits could continue to be paid on time despite unexpectedly adverse conditions which occur with little advance notice.9/ Several types of fail-safe mechanisms are possible other than the one currently being used --inter-fund borrowing; there is strong disagreement among the members as to which type of mechanism should be used. A combination of these types of mechanisms would, of course, be possible.

A number of mechanisms were considered. One would be to borrow, for a limited period, from the General Fund of the Treasury. Such limitation would prevent this procedure from being a part of the permanent method for financing

9/ It is most unlikely that such a situation would, with proper actuarial guidance, happen with shorter notice than a year or so.

the program. Another possibility along this line would be to permit the trust funds to issue their own bonds for sale to the general public.

A second mechanism would be to reduce, temporarily, the benefits payable. Alternatively, such a result could be accomplished indirectly, by reducing the amount of the next benefit increase which would occur as a result of the automatic-adjustment provision for benefits in eligibility status.

The third mechanism would be to increase, temporarily, the OASDI tax rates and/or the maximum taxable earnings base.

The National Commission makes a number of recommendations in addition to those discussed previously. Although these additional recommendations are of importance, they will not likely have any significant financial effects, on the average over the long run.

Investment Procedures

(19) The National Commission recommends that the investment procedures of the OASI, DI, HI, and SMI Trust Funds be revised so that (1) all future special issues would be invested on a month-to-month basis,

(i.e., without fixed maturity dates, as under present law), at an interest rate based on the average market rate of all public-debt obligations with a duration of four or more years until maturity (not including "flower bonds"10/); (2) all present special issues would be redeemed at their face amount; (3) all "flower bonds"10/ would be redeemed at their current market values; (4) all other current holdings would be held until maturity (unless disposed of sooner, if needed to meet outgo); and (5) only special issues would be purchased by the trust funds in the future.

There has been widespread public discussion about the investment procedures of the four Social Security trust funds. The view has frequently been expressed that the investments have not been made on a proper basis and that sufficiently high rates of return have not been obtained, because the average rate of return has, in recent years, been far lower than that on newly issued Government obligations. This is not a valid comparison, because it compares the new-issues rate with the average portfolio rate, which includes the effect of the lower interest rates on long-term obligations bought some years ago (at rates which were equitable and proper at that time). The same situation as to a higher

10/ "Flower bonds" are certain series of government bonds that were issued in the past (but which are no longer issued) which contain a provision that if the purchaser holds them for a certain length of time, then for inheritance-tax purposes, they are redeemable at par (regardless of the market value).

interest rate on new issues than on the total portfolio, as of recent years, has also been present for private pension funds and insurance companies.

The National Commission believes that the investment procedures followed by the trust funds in the past generally have been proper and appropriate. The monies available have generally been invested appropriately in Government obligations at interest rates which are equitable to both the trust funds and the General Fund of the Treasury and have not -- as is sometimes alleged -- been spent for other purposes outside of the Social Security program.

Nonetheless, the National Commission makes this recommendation in order to improve the level of public understanding of the operations of the trust funds. On the whole, and over the long-range future, it is likely that such a change in investment procedure will have little (if any) effect on the financial status of the Social Security program. It will probably result in a slightly higher average rate of return in the immediate future. The long-range effects are not determinable and, in any case, are not of great significance with regard to the overall financing of the program.

Although the National Commission has not considered the Medicare program in depth, it believes that the same investment procedures should apply for the HI and SMI Trust Funds as for the OASDI Trust Funds.

Public Members on Board of Trustees

(20) The National Commission recommends that two public members be added to the Board of Trustees of the OASDI Trust Funds. The public members would be nominated by the President and confirmed by the Senate. No more than one public member could be from any particular political party.

The National Commission believes that increasing the membership of the Board of Trustees of the OASDI Trust Funds by including two individuals from outside the Executive Branch, on a bi-partisan basis, would be desirable from the standpoint of confidence in the integrity of the trust funds. The presence of such public members would inspire more confidence in the investment procedure (even though it is recommended that the procedure should be placed on a more or less automatic basis, as under the previous recommendation) and would help to assure that the demographic and economic assumptions for the cost estimates of the future operations of the program would continue to be developed in an objective manner. Although the National Commission is not generally making recommendations in connection with the Medicare program, it would seem reasonable that the same procedure of having two public members on the Board of Trustees should also apply for the HI and SMI Trust Funds.

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Social Security and the Unified Budget

(21) A majority of the members of the National Commission recommends that the operations of the OASI, DI, HI, and SMI Trust Funds should be removed from the unified budget. Some of those who do not support this recommendation believe that the situation would be adequately handled if the operations of the Social Security program were displayed within the present unified Federal budget as a separate budget function, apart from other income security programs.

Before fiscal year 1969, the operations of the Social Security trust funds were not included in the unified budget of the Federal Government, although they were made available publicly and were combined, for purposes of economic analysis, with the administrative budget in special summary tables included in the annual budget document. Beginning then, the operations of the Social Security trust funds were included in the unified budget. In 1974, Congress implicitly approved the use of a unified budget by including Social Security trust fund operations in the annual budget process. Thus, in years when trust-fund income exceeded outgo, the result was a decrease in any general budget deficit that otherwise would have been shown -- and vice versa.

The National Commission believes that changes in the Social Security program should be made only for programmatic reasons, and not for purposes of balancing the budget. Those who support the removal of the operations of the

trust funds from the budget believe that this policy of making changes only for programmatic reasons would be more likely to be carried out if the Social Security program were not in the unified budget. Some members also believe that such a procedure will make clear the effect and presence of any payments from the General Fund of the Treasury to the Social Security program. (Under present procedures, such payments are a "wash" and do not affect the overall budget deficit or surplus).

Those who oppose this recommendation believe that it is essential that the operations of the Social Security program should remain in the unified Federal budget because the program involves such a large proportion of all Federal outlays. Thus, to omit its operations would misrepresent the activities of the Federal Government and their economic impact. Furthermore, it is important to ensure that the financial condition of the Social Security program be constantly visible to the Congress and the public. Highlighting the operations of the Social Security program as a separate line function in the budget would allow its impact thereon to be seen more clearly.

Social Security Administration as an Independent Agency

(22) The majority of the members of the National Commission believes -- as a broad, general principle -- that it would be logical to have the Social Security Administration be a separate independent agency,

perhaps headed by a bi-partisan board. The National Commission recommends that a study should be made as to the feasibility of doing this.*

The Social Security Administration is now part of the Department of Health and Human Services. Its fiscal operations and the size of its staff are larger than those of the remainder of the Department combined.

The National Commission has not had the time to look into the various complex issues involved in such an administrative reorganization and, therefore, recommends that a study group should be formed to look into this matter. Issues involved include whether the leadership of such an independent agency should be assigned to a single individual or whether there should be a governing board of several members, selected on a bi-partisan basis, and whether the operations of the Medicare program should be included in such an independent agency, or whether they should remain as a subsidiary agency within the Department of Health and Human Sevices, as at present.

* See additional views of Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper in Chapter 4.

Coverage of State and Local Government Employees

Although the National Commission believes that coverage of all persons who are in paid employment is desirable, some members do not favor mandatory coverage of employees of State and local governments.

A majority of the members is concerned about the constitutional problem of covering State and local government employees under Social Security on a mandatory basis because the Federal Government may not have the power to compel State and local governments to pay the employer share of the OASDI-HI tax. Other members believe that, regardless of the constitutionality question, the Federal Government should not do so because the two levels of government have equal roles and status. Some members point out that many State and local governments already have adequate, well-financed retirement systems for their employees, so that they do not need OASDI-HI coverage[11/]; others point out that many State and local systems have serious financing problems and that protection of the benefits under such systems against inflation (and often protection against other risks) is not as adequate as under the OASDI program.

11/ A relatively small number of State and local government employees do not have either OASDI-HI coverage or public-employee retirement systems.

Benefit Provisions Primarily Affecting Women

In recent years, there has been widespread discussion as to whether the basic structure of the Social Security program should be altered in view of the changes in the role of women in our society and economy.*

Some members of the National Commission believe that there should be a comprehensive change in the program to reflect the changing role of women, for example, by instituting some form of earnings sharing for purposes of the Social Security earnings record. Simply stated, earnings sharing means that all covered earnings received by a couple during the period of marriage would be pooled and half would be credited to each of their earnings records. Some other members believed that such comprehensive changes were outside of the scope of the charge of the National Commission.

Social Security Cards

The National Commission commends a recent decision of the Social Security Administration to use banknote-quality paper for new and replacement Social Security cards. The Senate Permanent Subcommittee on Investigations estimated in June 1982 that fraud involving identification cards, of which Social Security cards are the vast majority, cost the Federal Government between $15 and $24 billion per year.

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* See additional views of Commissioner Fuller and additional views of Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper, in Chapter 4.

Chapter 3

FINANCING PROBLEMS OF THE MEDICARE PROGRAM

This chapter deals with the consideration which has been given to the financial status of the two portions of the Medicare program by the National Commission.

HOSPITAL INSURANCE PROGRAM

According to the 1982 HI Trustees Report, the HI Trust Fund is estimated to be depleted by the early part of the 1990s and possibly even by the end of this decade. Over the next 25 years, the program is anticipated, under the Alternative II-B assumptions of that report, to have an actuarial deficit that averages about 1½% of taxable payroll.

About $12.4 billion was loaned to the OASI Trust Fund by the HI Trust Fund in December 1982, as permitted by the law then in effect. Because the HI Trust Fund will be depleted at some time within the next decade, according to current estimates, the amounts borrowed by the OASI Trust Fund in 1982 should desirably be repaid to the HI Trust Fund as soon as feasible.

These future financing problems of the HI program were not addressed specifically by the National Commission, with the exception of those aspects

that relate directly to the financial status of the OASDI program. Such action was taken both because of the more immediate financing problems of the OASDI program and because the recently-named Advisory Council on Social Security will be concerned exclusively with making recommendations on the Medicare program and its future solvency.

The "consensus" package described in Chapter 2 would result in some additional financial resources for the HI program, as indicated below (see text of Chapter 2 for complete description of the proposals):

Proposal	Short-Term Savings, 1983-89 (billions)	Long-Range Savings (percentage of payroll)
Cover nonprofit employees	+$1.7	+.02%
Prohibit withdrawal of State/local employees	+ .5	--
Total Effect	+ 2.2	+.02

Although the National Commission did not specifically address the future financing problems of the HI program, some members were concerned about the estimates of large future financing short-falls. The first major concern was the possibility that any excess of income over outgo of the OASDI Trust Funds during 1990-2010 could be endangered by the extensive financing needed by the HI Trust Fund during that period. The second major concern was that, by ignoring the cost of the HI program, the potential tax burden of the entire Social

Security program might not be properly assessed when making reforms in the OASDI portion of the program. Some members believe that the problem of financing the HI program is not simply a matter of providing the funds to meet the costs projected on the basis of past experience, but rather that first the matter of slowing the rate of increase in hospital costs generally should be addressed.

According to the intermediate cost estimate, the combined OASDI-HI system will develop significant annual deficits (excesses of outgo over income) beginning shortly after 1990. These deficits will become increasingly larger as time goes by. Thus, ultimately (2030-56), the combined deficits will be somewhat more than 12% of taxable payroll.* About 65% of such deficits will be caused by the HI program. In considering these estimates, it should be recognized that the underlying assumption is that hospital costs will continue to rise more rapidly than the general wage level for the next 25 years and at the same rate thereafter. In other words, they assume that mandatory or voluntary actions to control hospital costs undertaken in the next 25 years will be effective only to the extent that the growth in hospital costs as compared with the general level of wages will not be reduced below what is assumed in the actuarial cost estimates for the HI program.1/

1/ These assumptions are summarized in Table A1 of the 1982 HI Trustees Report.

* See views of Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper as to the undesirability of cost estimates for the HI program going further than 25 years into the future, in Chapter 4.

SUPPLEMENTARY MEDICAL INSURANCE PROGRAM

The National Commission did not believe that it was necessary to make any recommendations with regard to the SMI portion of the Medicare program. Its financing is -- as discussed in Appendix J -- entirely on a year-by-year basis, rather than on a long-range basis, as are the three payroll-tax-supported programs (OASI, DI, and HI). For calendar year 1982, the payments from the General Fund of the Treasury to the SMI Trust Fund are estimated to represent 77% of the total of the premium income and such payments. The financial status of the SMI Trust Fund is currently excellent.

Chapter 4

ADDITIONAL STATEMENTS

This chapter consists of additional statements of individual members of the National Commission. These statements are presented alphabetically by name of member; those which are signed onto by several members appear first.

The statements appear in the following order:

(1) Commissioners Archer, Beck, Conable, Dole, Fuller, Greenspan, Heinz, and Trowbridge

(2) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (long-range financing and issues of special concern to women)

(3) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (independent agency)

(4) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (HI cost estimates)

(5) Commissioners Dole and Conable

(6) Commissioner Archer

(7) Commissioner Armstrong

(8) Commissioner Fuller (long-range financing)

(9) Commissioner Fuller (issues of special concern to women)

(10) Commissioner Kirkland

(11) Commissioner Waggonner

SUPPLEMENTARY STATEMENT ON MEETING THE LONG-RANGE FINANCING REQUIREMENTS BY COMMISSIONERS ARCHER, BECK, CONABLE, DOLE, FULLER, GREENSPAN, HEINZ, AND TROWBRIDGE

The recommendations made in the "consensus" package fail to meet the long-range goal of providing additional financing equivalent to 1.8% of taxable payroll. The shortfall is an estimated .58% of taxable payroll. We believe that this should be derived by a delayed, slowly phased-in increase in the "normal" retirement age (the age at which unreduced retirement benefits are available to insured workers, spouses, and widow(er)s -- which is age 65 under present law).

The major reasons for this proposal are:

(1) Americans are living longer.

(2) Older workers will be in a greater demand in future years.

(3) The disability benefits program can be improved to provide cash benefits and Medicare to those between age 62 and the higher normal retirement age who, for reasons of health, are unable to continue working.

(4) Because the ratio of workers to beneficiaries is projected to decline after the turn of the century, younger generations are expected to pay significantly increased taxes to support the system in the 21st century. An increase in the normal retirement age will lessen the increase.

(5) Given sufficient notice, coming generations of beneficiaries can adjust to a later retirement age just as earlier generations adjusted to age 65.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys,
Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper
(members selected by the Democratic leadership of the Congress)

Long-Term Financing and Issues of Special Concern to Women

Meeting the Remaining Long-Term Deficit

All of us supported the compromise agreement which is being recommended by a vote of 12 to 3 of the full Commission.1/ The agreement provides for fully meeting the Commission's short-term financing goal and also for meeting about two-thirds of the Commission's long-term goal--1.22% of payroll out of the 1.8% projected need.

We recommend that the remaining 0.58% of payroll deficit be met by providing additional revenues starting in the year 2010, in advance of the period when the bulk of the deficit is projected to occur. Sufficient additional revenues would be provided by an increase of less than one-half of 1% (0.46%) in deductions from workers' earnings beginning in 2010 and a like amount in employer payroll taxes (with an equal combined rate for the self-employed) or the revenue could be supplied by an equivalent general revenue contribution, or some combination of the two. For purposes of present legislation we would support putting in the law now an increase in the contribution rate beginning in

1/ Mr. Kirkland is not joining in the recommendation to extend coverage to Federal employees and has filed a supplemental statement on the issue.

Although we believe that greater action in this direction may be desirable, we are suggesting only enough change to produce approximately the needed .58% of taxable payroll. The recommended change would apply only to the normal retirement age. Early-retirement benefits would continue to be available beginning at age 62 for insured workers and spouses and at age 60 for widows and widowers, but the actuarial reduction factors would be larger. The minimum age for eligibility for Medicare benefits would continue to be the "normal" retirement age for OASDI benefits. Disability benefits are now available under somewhat less stringent definitions for those aged 60-64. However, because some workers, particularily those in physically demanding employment, may not benefit from improvements in mortality and be able to work longer, we asume that the diability benefits program will be improved prior to th implementation of this recommendation to take into account the special problems of those between age 62 and the normal retirement age who are unable to extend their working careers for health reasons.

Under our proposal, the normal retirement age would be gradually increased --one month each year -- to age 66 in 2015, beginning the phase-in with those who attain age 62 in 2000. Beginning with those who attain age 62 in 2012, the normal retirement age would be automatically adjusted (on a phased-in basis) so that the ratio of the retirement-life expectancy to the potential working-lifetime (from age 20 to the "normal" retirement age) remains the same over the years as it was in 1990. The estimated long-range savings of this proposal is 0.65% of taxable payroll.

2010 of 0.46% of payroll (with the employee contribution offset by a refundable income tax credit) recognizing, of course, that in the next century the Congress may prefer to raise the money in some other way and that, in fact, such a rate increase would not be allowed to go into effect unless estimates at the time of the scheduled increase showed that it would be needed.

An increase of less than one-half of 1% in the contribution rates in all probability would not mean an increase in the burden of supporting OASDI because: (1) By 2010 real wages are likely to be substantially higher than they are now; and, (2) although levied at a higher rate, the rate will apply to a smaller portion of total compensation than today if the expansion of non-taxable fringe benefits projected in the estimates actually occurs. (If such expansion fails to materialize the contribution rate increase would be unnecessary.)

In contrast to our plan for meeting the part of the long-range deficit not addressed by the compromise agreement, some members of the Commission seek to meet the remaining deficit by raising the age at which full benefits are first payable and then continuing to raise the age automatically in relation to improvements in longevity. This proposal is a benefit cut. If the age is raised to 68, benefits would be reduced by 20% relative to those received at age 65; if it is raised to age 67, the cut is 13%; and if set at age 66, the cut is 7%.

The cut would be concentrated on those unable to work up to the newly set higher age and on those unable to find jobs. It would cut protection for those now young, the very group being asked to pay in more and for a longer period of time. And an automatic provision changing the age of first eligibility for full benefits would make it very difficult for people to plan for retirement. It would also greatly complicate private pension planning. In our opinion it is unwise to try to index Social Security for all possible future changes in society. Social Security has enough indexing. Congress can act to make future changes in the long-run future as needed.

We favor the maintenance of the full range of retirement options in present law so that the program will be responsive to the great variety of occupations in the American economy and to the great variety of individual circumstances. It is one thing for example, to consider a higher age of first eligibility for full benefits for white collar workers; something else again for those required to do heavy work. The system today has the required flexibility. It provides: (1) full benefits at any age for qualified workers who have long continued total disability, (2) actuarially reduced benefits for those who apply between ages 62 and 65, (3) higher benefits for those who postpone retirement and continue to work between 65 and 70 (3% a year additional benefits under present law, to be raised to 8% during the 1990's under the Commission recommendations).

Some have argued for raising the age at which full benefits are first payable on the ground that as life expectancy increases, so will the ability to

work. However two leading government authorities on health and the aging testified before the Commission that data on increased longevity carry no evidence that health improved commensurately. If anything, they said, what evidence there is indicates the contrary; more people living longer, but with more chronic illness and impairments. Moreover, recent increases in longevity may be related to retirement at earlier ages.

It is, of course, highly uncertain what the economy and the labor market will look like in the next century. Two major possibilities exist. A labor shortage may result from projected shrinkage of the proportion of persons in the 20-64 age group2/. In that event, greater market demand for the services of older people would produce greater paid-work opportunities for them. Employers would be seeking older people and the benefit increase for work after 65 recommended by the Commission would encourage older people to work. If, on the other hand, a labor shortage does not materialize, raising the age of first eligibility for full Social Security benefits would force a large number of elderly persons into early retirement with lower benefits than current law provides.

We should not cut benefits in an attempt to keep older persons at work. Instead we should recognize and remove the impediments that stand between older workers and employment. Most important of all, economic arrangements should

2/ A labor shortage would result only if the relative reduction in the working age population were not offset by productivity improvements.

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favor full employment and, then, the voluntary approach -- the incentives prepared by the Commission -- will have a chance to work. Social Security benefits are not so large as to cancel the lure of good wages. The best medicine for Social Security is full employment and economic growth, not benefit cuts.

Meeting Problems of Special Concern to Women

Since enactment of the Civil Rights Act of 1964, Federal law has sought to prevent and redress unequal treatment of women. Despite those efforts, substantial inequalities persist and much remains to be done.

In general, gender-based discrimination has been eliminated from the OASDI program through legislative change and court decisions, but in recent years there has been a growing concern regarding the extent to which the Social Security system has adapted to the changed roles of women in society and the economy. The labor force participation rate for married women has almost doubled in the last 25 years. Over 65% of all women aged 20 to 54 are now in the labor force. In addition, the divorce rate has increased significantly. Two decades ago, there was one divorce for every four marriages; in 1976 that rate had risen to one divorce for every two marriages.

Although the scope and urgency of economic considerations appropriately consumed most of the time of the Commission, it did give attention to some of

the problems that currently exist for women in Social Security coverage. Four specific recommendations were made for important changes affecting certain groups of widows, divorced women and disabled women.

Social Security has indeed given extensive protection to women and men. It provides benefits for 91% of women over 65 today (compared to 10% of women who received benefits from a private pension system in 1980). Nevertheless, the significant changes in women's roles in society and the economy have caused many inequities and unintended results for women beneficiaries.

Today, the majority (65%) of working age women are in the labor force; yet their benefits may be greatly reduced if they leave the labor force for a period of time for homemaking or child-caring. Also lower family retirement and survivor benefits exist for 2 wage-earner couples than for 1 wage-earner couples with the same family earnings history (although there are some advantages to having benefits based on one's own earnings that are partly offsetting).

Homemakers have no individual coverage or eligibility to Social Security and no credits of their own on which to build with later employment because of early widowhood or any other reason. Divorced women may be severely affected by the arbitrary 10-year duration-of-marriage requirement and the inadequacy of the 50% dependent benefit for their independent economic needs. Currently, the benefit for the divorced woman depends upon the actual retirement of the former spouse; however, the Commission has recommended a change which will correct this

problem. Disability protection exists only for women who remain quite continuously in the labor force and not at all for homemakers. It is often lost to working women during a period of time spent in the home.

Since the introduction in 1976 by Representative Martha Keys and Representative Don Fraser of legislation to implement the concept of earnings sharing, many have believed this to be the best solution to these anomalies. Earnings sharing is a recognition of marriage as an economic partnership with equal respect given to the division of labor chosen by each couple. It accords the right of each individual to a retirement income based on half of the total retirement credits earned by the couple during their marriage. This is similar in concept to the sharing of income in the joint tax return of a married couple. Working women would have a continuous record of Social Security credits when they retire instead of zero credits for years spent in the home. It would respond to, and recognize, the economic value to the couple of full-time work in the home by either spouse.

Earnings sharing has been proposed in many forms and was recommended for consideration by both the 1979 Advisory Council on Social Security and the 1980 President's Commission on Pension Policy. Obviously, such a comprehensive change in structure requires careful development of a detailed proposal and thorough analysis of its impact. There are many technical and administrative questions to be worked out and special consideration must be given to continued strong protection for the family against death or disablement of its primary

wage-earner. These are not insurmountable problems, however. We believe that earnings sharing is the most promising approach to the solution of Social Security problems of special concern to women and we urge renewed efforts to develop a comprehensive proposal based on this concept.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys,
Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper
(members selected by the Democratic leadership of the Congress)

Social Security as an Independent Agency

We believe that it would improve the operation of the Social Security system and strengthen public confidence in the integrity of the program if it were administered as an independent agency under a bi-partisan Board as it was in the early days of the program. We do not believe that an in-depth study is necessary, but rather any study should be confined to the details of implementation.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys,
Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper
(members selected by the Democratic leadership of the Congress)

HI Cost Estimates

We do not believe that the work of the Commission provided any basis for overturning the long-term position of the Board of Trustees that the HI estimates should be limited to 25 years, and we object to the use of a 75-year valuation period for HI cost estimates. The Trustees consider that the degree of uncertainty concerning future hospital costs, relative to the remainder of the economy, is so great as to make projections beyond 25 years thoroughly misleading.

Since official projections for the Hospital Insurance (Medicare) program are made for only 25 years, tax rates are formulated based on expected income and outgo only during that period. It is misleading to extend a fixed tax rate into the distant future while assuming that costs continue to accelerate. This procedure (1) exaggerates program costs and (2) assumes that unlimited growth in health care costs would be permitted without intervention.

ADDITIONAL VIEWS OF

SENATOR ROBERT J. DOLE

AND CONGRESSMAN BARBER B. CONABLE, JR.

When the National Commission on Social Security Reform was created on December 16, 1981, few people had real confidence in what the commission could accomplish. And little wonder. For the better part of a year, social security had been embroiled in political controversy. The system moved closer to insolvency as proposals for financial reform were subjected to partisan political attack. The 15 selected as commission members, moreover, embodied widely divergent views At least to outsiders, these members probably seemed incapable of reaching any true bi-partisan consensus.

In the last several days, the commission accomplished what some said was impossible. With the cooperation and approval of President Reagan and House Speaker O'Neill, the commission forged a consensus reform package with broad bipartisan support. As detailed earlier in this report, the package is designed to close the short-term deficit identified by the commission, and go a long way toward closing the long-range deficit. It requires concessions from all of the parties who have a stake in social security--current and future beneficiaries, taxpayers, and government employees who do not now contribute to the system. While no one member is happy with every specific recommendation, the important fact is that a consensus was reached on how to save

the system. The bipartisan reform package, which we plan to introduce into the Senate with Senators Heinz, Moynihan, and others, and into the House, merits speedy Congressional action.

Agreeing on the essential provisions of a social security solution was by no means the only accomplishment of the commission. It should be noted that the commission reached unanimous agreement on the size of the short- and long-term deficits in the social security cash benefit programs (old-age and survivors insurance and disability insurance). That is, in concrete dollar terms, the commission quantified the seriousness and the urgency of the financing problem. In our judgment, $150-$200 billion is the amount required to keep the system (excluding medicare) solvent through 1990. Over the very long term, the next 75 years, the needs of the system amount to about $25 billion a year (in 1983 dollar terms) over and above currently scheduled tax income. Only a year ago, partisan lines were drawn between those who did and and did not believe there was any financing problem at all before the year 2000.

In addition, the National Commission provided a valuable forum for the diverse views on social security. With the able leadership of Chairman Alan Greenspan and with the expert assistance of Executive Director Robert Myers, members of both political parties were able to work together in studying the social security financing problem and options for financial

reform. The interests of the elderly, organized labor and business, and the general taxpayer were all well represented. In recent weeks, we engaged in intensive negotiations which were, to a large extent, absent of the political partisanship that so seriously damaged efforts for responsible reform in 1981.

Finally, we believe the commission's recommendations are significant in that they narrowed the range of realistic options for closing the deficits. Realistic options were not judged to include, nor was there any support for, proposals to reduce or eliminate benefits for people now on the rolls. Options under consideration involved restraining the growth of benefits in future years and providing additional financing through some form of revenue increase. Current and future beneficiaries should be reassured by the unanimously held view that social security is an important and vital program that must be preserved.

With these accomplishments under our belts, we in Congress are in a strong position to hammer out the details of legislation in the early months of the 98th Congress. The expiration of interfund borrowing and the likely inability of the retirement program to pay full benefits in July make prompt action essential.

The Financing Problem

While the commission report accurately reflects the size of the social security financing problem, perspective may be provided by some additional facts. Most importantly, without prompt Congressional action, the social security retirement program will not be able to pay benefits on time beginning in July. In fact, were it not for "interfund borrowing," authorized by Congress in 1981 to permit the reserves of each social security trust fund (old age and survivors insurance, disability insurance, and hospital insurance) to be used to help pay benefits from another, the retirement program would have stopped meeting its monthly payments on time two months ago. With the authority for interfund borrowing now expired (as of December 31, 1982), July is when all of the money borrowed from the other two trust funds--$17.5 billion in total--finally runs out.

Reauthorizing interfund borrowing can not help the retirement program for long. The retirement program is so large--accounting for 73 percent of all social security spending--and its borrowing demands are so heavy, the rest of the system could be insolvent before the year is out. The Social Security Board of Trustees, the Congressional Budget Office, and a wide variety of private actuaries and economists all agree that additional trust fund revenues must be provided or savings must be achieved if the social security system is to remain solvent through the remainder of this decade.

While it is the short-term financing problem that is immediately pressing, the long-term financing problem is equally serious, if not more so. The Social Security Board of Trustees reports that the combination of the baby-boom generation retiring and gradually lengthening lifespans will lead to a dramatic increase in the cost of social security--about 55 percent between 2005 and 2035 alone. In the year 2035, when the young people of today are beginning to retire, the actuaries expect that the elderly population will account for 21 percent of the overall population (as compared to 11 percent today), and the typical 65 year old will have a life expectancy of 17 years (as compared to 14.5 years today). The effect will be to decrease the ratio of taxpayers to beneficiaries from just over 3:1 today to 2:1, helping to generate the enormous long-term deficits we now forsee.

According to the social security actuaries, the long-term deficit in the non-medicare social security programs is 1.8 percent of taxable payroll. This is the figure adopted by the National Commission. To translate, it means that over the next 75 years, the actuaries project that benefits will outstrip payroll tax income, in dollar terms, by about $25 billion per year, or $2 trillion in total (expressed in 1983 dollar terms). Including medicare, the long-term deficit has been estimated at 7.01 percent of taxable payroll, or nearly $8 trillion in total.

How Much Does the System Need?

How much the system needs in additional financing depends on how we expect the economy to perform in the years ahead and how much of a "safety margin" is accumulated in reserves. Each set of forecasts provides a different view of the needs of the system, as illustrated in the table below.

TABLE —ADDITIONAL RESOURCES REQUIRED IN THE NEAR-TERM TO BRING OASDI RESERVES UP TO CERTAIN LEVEL

[In billions]

	Additional resources required [2]		
	CBO	1982 trustees' intermediate (II-B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	56.6	62	187
13 percent	68.7	70	195
15 percent	74.7	74	200
20 percent	89.9	88	216
30 percent	120.1	113	246
50 percent (6 mo)	180.7	163	303

[1] Table includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982. Target reserve levels are attained in even annual increments.

[2] CBO estimates and Trustees' estimates are not directly comparable because CBO numbers include added interest on larger trust fund balances, while Trustees' numbers do not.

The commission settled on $150-$200 billion as the amount required in the years 1983-89 to ensure the solvency of the system through 1990. This is roughly consistent with achieving a reserve ratio (reserves relative to annual outgo) of 15 percent by 1990, under the 1982 Board of Trustees' pessimistic assumptions.

Several points are worth noting in this regard. First, planning for a low growth decade is prudent in light of the experience during the 1970s. (The pessimistic assumptions in the 1982 Board of Trustees Report project the economy will perform much like in the past 5 years.) The failure to anticipate, both in 1972 and 1977, that prices would grow more rapidly than wages, and therefore benefits would grow more rapidly than tax income, is why we are in the situation we are in today. Second, a reserve ratio of 15 percent is not, in and of itself, a "goal". At this level, reserves would be lower than at any point in history. Accumulating considerably larger reserves is desirable, although this would be difficult to do very quickly. We believe we express the views of all members of the commission when we say that it is our hope that the economy will perform better than we assumed when we made our estimates and that a larger reserve cushion will accumulate. Finally, if the medicare program were under consideration as well, the reserve needs of the system would be considerably higher.

Not a New Problem

Given the partisan debate that raged over social security in 1981, some people may have lost sight of the fact that the financing crisis is not a new problem. Trust fund reserves have been on a down-hill course for years. As the table below indicates, prior to 1970, there were always reserves on hand

capable of financing a year's worth of benefits or more--that is, reserves equal to 100 percent or more of annual outgo. By 1976, reserves had fallen to 57 percent of outgo, and today, the combined reserves of the system stand at about 15 percent of annual outgo, only 8 weeks worth of benefits. The situation is even worse, at least today, when medicare is excluded.

TABLE —HISTORICAL OASDHI RESERVE RATIOS, 1950–83

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

Calendar year	Trust funds				
	OASI and DI combined	OASI	DI	HI	OASDHI
1950	1,156	1,156			1,156
1955	405	405			405
1960	186	180	304		186
1965	110	109	121		110
1970	103	101	126	47	95
1971	99	94	140	54	93
1972	93	88	140	47	87
1973	80	75	125	40	76
1974	73	68	110	69	73
1975	66	63	92	79	69
1976	57	54	71	77	60
1977	47	47	48	66	50
1978	37	39	26	57	40
1979	30	30	30	54	34
1980	25	23	35	52	29
1981	18	18	21	45	23
1982	15	15	17	53	22
1983 [1]	11	8	11	39	16

[1] Estimated using Trustees' intermediate (II–B) assumptions.

Source: 1982 OASDI and HI Trustees' Reports.

TABLE —HISTORICAL LEVELS OF OASDHI TRUST FUND ASSETS, NUMBER OF MONTHS' WORTH OF BENEFITS ON HAND

Calendar year	Number of months' worth of expenditures on hand at beginning of year		
	OASDI	HI	OASDHI
1950	138.7		138.7
1960	22.3		22.3
1965	13.2		13.2
1970	12.4	5.6	11.5
1975	8.0	9.4	8.3
1980	2.9	6.2	3.5
1982	1.8	6.3	2.6

Among other public groups to report in the last 5 to 10 years, the social security advisory councils of 1975 and 1979, an expert consultant panel of actuaries and economists, reporting in 1976, and President Carter's Commission on Pension Policy and the National Commission on Social Security, both reporting in 1981, all underscored the seriousness of the short- and long-term financing problem. Social security's financing problem dates to the early 1970s and even earlier, when Congress increased benefits and expanded eligibility without facing up to the cost of doing so.

The Time for Action is Now

There is no denying that we have a big job ahead of us in Congress. We face many difficult decisions as to the details of the legislation, and the adequacy of the measures proposed. The balance of the long-term deficit will also have to addressed. In our view, a balanced solution to this problem will involve bringing the cost of social security into line with the ability of our working population to finance the system. The tax burden is already heavy, and the confidence of young people critically low. As reflected in the additional views, a majority of commission members recommends increasing the retirement age, for

people retiring in another 20 or 30 years, as an equitable way of reducing long-range costs.

The American people--the 36 million people receiving benefits as well as the 116 million working people who support the system--deserve more than another "quick fix" that holds the system together until the next crisis comes along. They deserve the speedy consideration of this bi-partisan package of recommendations. Confidence in the long-term viability of social security will only be restored by enacting measures that put the system back on a sound financial footing and do so without imposing an unrealistic tax burden on present and future workers.

Within a matter of weeks, the House Ways and Means Committee and the Senate Finance Committee will begin the task of weighing the options and then drafting social security financing legislation. We feel confident that the essential elements of the reform package we now recommend, as endorsed by President Reagan, Speaker O'Neill, Majority Leader Baker and others, will be adopted by the Congress and enacted into law by May. Moving quickly to shore up the nation's largest domestic program is in all of our interests.

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Dissenting Views of Congressman Bill Archer
to the Report of the National Commission on Social Security Reform

It is customary in instances such as this to address one's dissenting views to the body of the main report itself.

In this case, however, it is perhaps more appropriate for me to address my comments on the report to my children and future grandchildren and those of their generations who will be most affected by the changes proposed. Should the Commission's proposals be enacted into law, it is they who have the most at stake.

Unquestionably, great credit is due the President, the Congressional leadership and Commission negotiators who were able to arrive at this point where a plan exists to be considered by the Congress. The fact that I personally have strong reservations about the specific plan proposed in no way diminishes my respect for that effort.

It is unfortunate that the agreement reached continues to leave in doubt, in my opinion, the future stability of the Social Security system. We have not taken advantage of this rare historic opportunity to do more toward designing greater stability. The proposals treat symptoms, not causes.

My concern stems from a variety of sources, but primarily from those involving the basic economic and demographic assumptions used to assess the short and long term deficits, and the failure to address adequately the basic structural deficiencies which will continue to cause severe strains on the system in the future.

The compromise agreement does not make a specific recommendation regarding a portion of the long term need (.58% of payroll), even assuming the accuracy of the projections of the dimensions of the gap it sought to close. That significant element has been left open to Congressional consideration under the terms of the agreement. Neither does the agreement address certain factors influencing the short term need, such as the repayment of loans made to the retirement fund by the Health Insurance trust fund. Those revenues will be badly needed as the HI fund becomes deficient in the near future. In fact, the Commission's agreement bears no relationship to the parallel dilemma faced in the health insurance program.

Fundamental principles inherent in the basic concept of Social Security have been abrogated by the Commission's recommendations. The large infusion of general revenues into the system makes it self-sustaining no longer. The "earned right" concept which has been basic to the system since it was created has been abridged by a new means test. The concept of Social Security as a floor of protection to supplement other retirement savings has been further eroded by the agreement's perhaps unintended result of encouraging Social Security to be viewed as a sole source retirement system.

Certainly there is some good in the recommendations. The proposal to bring federal employees into the system is a welcome one, but its coverage of only newly hired employees continues an inequity. Ironically, those now in Congress who must vote on the plan are themselves going to continue to be exempt from coverage. So will those presently employed by the federal government who will administer the changes.

The plan provides very modest improvement in the treatment of women, but continues major inequities in this area as well as in other areas of the system.

There is a brief delay in cost of living increases for present beneficiaries, as a partial attempt to offset benefit increases which resulted in an increase of 52 percent in purchasing power for the average Social Security recipient over the past 15 years.

This is essentially the only element of the plan which directly affects those now retired or soon to retire -- except for those retirees who have set aside a portion of their earnings in savings for their retirement. The plan taxes those who have saved for their retirement and imposes a means test for full benefits. Those who do not save are rewarded by the system because of this change.

A Congress which has acted in recent years to encourage individual retirement savings is now being asked to enact a significant disincentive to retirement savings. There is also a basic flaw in the way the "means test" inherent in the tax on benefits is determined. Individuals with non-Social Security retirement income of $20,000 or more will be taxed on half of all their Social Security benefits. Those with incomes of $19,999.99 or less will not be taxed on <u>any</u> of their benefits. One penny of income could make the difference in whether hundreds of dollars in taxes must be paid.

The imposition of a means test, for the first time, destroys the earned right concept fundamental to Social Security and lends a new welfare aspect to its administration.

The same is true of the large infusion of general revenues proposed by the plan. The self-financing structure of the Social Security system has been significantly eroded.

Of the $168.7 billion in short term deficit reductions in the plan, approximately one-third is represented by direct and indirect infusion of general revenues, which, combined with payroll tax increases accounts for some 75% of the short term deficit reductions. In terms of the long term deficit, new taxes account for even more of the reduction (excluding the portion of the deficit left unresolved by the report).

I do not hold the position that the deficit reductions for both the short term and long term should be accomplished without <u>any</u> additional taxes beyond those already scheduled by existing law to go into effect. I am concerned, however, about a recommended proposal which includes such an imbalance of dependence upon new revenues (taxes and general Treasury funds) relative to structural changes which would restrain the growth of spending outlays. I question the ability of our tax base in the future to support this enormous projected growth.

Structural changes are critical to the long term stability of the system. The report leaves unanswered the question of what benefit level our economy can afford in the next century and what those in the work force at that time will be able to pay.

What we should be providing here is a basis for realistic expectations for future Social Security recipients against which they can determine their own needs for retirement security beyond what the system may provide them at that time. There is great danger that these proposals have made promises which the system will not be able to support.

Changes which would more directly relate taxes paid into the system to benefits received are the type of structural changes which would lend greater credibility to Social Security. The Commission recommendations continue present inequities instead. An individual with a short covered employment history continues to be treated more favorably than his counterpart with the same average income who has a longer covered employment history.

Another important consideration the agreement does not address adequately is that of demographic changes, increased life expectancy and improvements in the physical and mental ability of individuals to continue to work. There is no direct recommendation by the Commission that the age of retirement be adjusted to take such changes into account. Nor is there adequate attention given to revision of automatic cost of living increases relative to the taxes which support them.

In regard to taxes imposed by the compromise, the use of a refundable tax credit (a concept which has been rejected repeatedly by Congress) ruptures the fundamental parity between employer and employee.

The 33% increase in the OASDI tax rate on the self-employed is too great a burden for those who are already operating at the margin because of difficult economic conditions.

In summary, the recommendations proposed by the National Commission on Social Security Reform, in my judgement, leave the system's future very much in doubt. We are again addressing the symptomatic deficits facing Social Security, rather than taking advantage of this opportunity to address the causes of the problems themselves.

We have postponed once again the day of reckoning by tranferring the burden of supporting the system's shortcomings to future generations.

Social Security represents the single most important commitment to the elderly made by our society. It is a great testimony to our nation's dedication to assuring retirement security for our elderly of all generations.

The question facing Congress as we begin consideration of the Commission's recommendations is whether this particular plan exactly fulfills that commitment as completely as it must. I clearly have misgivings that it does.

As the legislative process begins, there remains an opportunity for the thoughtful concerns of others who share those misgivings to strengthen the product which is ultimately enacted. My own greatest hope is that my strong desire to guarantee the solvency of Social Security into the future can be matched by a confidence that the solution accomplishes that goal.

VIEWS OF SENATOR WILLIAM L. ARMSTRONG

Since 1971 maximum Social Security tax rates have quadrupled. These rates are scheduled to triple again in the 1980s as a result of legislation already on the books.1/ During the approximately same period of time, from 1970-1981, the "real" pay of working men and women fell while Social Security benefits went up about 50% faster than the cost of living.2/

Now the National Commission on Social Security Reform is recommending new taxes as well as acceleration of tax increases already scheduled. Can such increases be justified?

I do not think so. The vast majority of workers, small business men and women and retirees are not likely to think so either. I expect there will be howls of outrage when Middle America discovers what the National Commission has recommended and some political leaders have already endorsed. Hopefully, grass roots lobbying will be sufficient to convince Congress to amend the Commission's plan to make it more workable, fairer, and more sound economically. If such amendments are ignored, Congress will be repeating the same basic mistake made in 1977. At that time, legislation was enacted which purported to shore up the financial solvency of the Social Security trust funds for the rest of our lives. But instead of focusing on basic systemic difficulties of the trust funds -- especially the growing ratio of retirees to taxpaying workers and benefit increases far outstripping the cost of living -- Congress concocted the largest tax increase in history.

A few of us objected. But the majority of Congress went along, and President Carter hailed passage "as the guarantee that from 1980 to 2030 Social Security funds will be sound."

I didn't quite work out that way. Social Security is again running out of money. By midyear, unless Congress intervenes, the trust fund will be unable to meet its obligations. The National Commission on Social Security Reform estimates a funding gap of $150-$200 billion between now and the end of the decade and a long-term deficit of 1.8 percent of payroll -- approximately $1.6 trillion. Even these gloomy prospects may prove too optimistic.

And once again the recommended solution is to raise taxes.

1/ Taxes paid by "average" workers rose 259% from 1970 to 1980; they are projected to rise another 246% this decade.

2/ From 1970 to 1981, pretax wages increased 122%; the Consumer Price Index rose 136%; Social Security benefits (OASDI) went up 205%.

On January 15, after a series of marathon negotiating sessions, and with the approval of President Reagan and House Speaker O'Neill, the National Commission recommended legislation. Unfortunately, the Commission suggested closing the gap primarily through new taxes. But even with the recommended tax increases, the plan fails to raise enough money to put Social Security back in the black. It also avoids the permanent structural changes necessary to restore public confidence in the solvency and fairness of Social Security. Moreover, the Commission's recommendations violate several basic principles on which the Social Security system has previously rested. Consider these facts about the Commission recommendation:

Including revenue from expanded coverage, higher taxes account for 75 percent of the proposed deficit reduction between now and 1990 -- $126 billion out of the $169 billion total. In the long run, the balance is even more lopsided. Tax increases constitute 91 percent of the Commission's total recommendation.

Such tax increases raise serious questions of economic impact. The first payroll tax hike in the Commission's plan will cut paychecks in 1984. Will the higher employment tax dampen the recovery? Will additional joblessness result? I think most economists would agree that higher payroll taxes are bound to have these undesirable effects.

Worse yet, the Commission's recommendations do not close the projected gap between revenues and outlays in the trust funds, which totals several trillion dollars: $1.6 trillion is the discounted present value of the deficit. Faced with actuarial estimates of a deficit of 1.8 percent of payroll, the Commission recommends measures solve only about two-thirds of the problem. Still more taxes have already been proposed to cope with the remaining .58 percent payroll deficit that the Commission left dangling.

It would not have been necessary to leave the long-term funding issue unsettled had the Commission been willing to recommend modest changes in the age of normal retirement. Previous advisory groups have suggested a variety of gradual changes such as increasing the retirement age by one month each year for the next 36 years or, possibly, even waiting to start such a phasing process five or 10 years from now. The approach I favor is to gradually increase the normal retirement threshold to age 66 with a phase-in period starting after the turn of the century; thereafter, the retirement age would be automatically indexed to changes in longevity. Such a proposal would apply only to persons fully able to work and would not preclude early retirement for those entitled to disability. Incredibly, this single, gradual change, which was ignored by the National Commission, would be sufficient to fulfill the entire long-term funding problem of Social Security, according to the actuaries.

Finally, the Commission may have erred in overturning at least three basic principles on which Social Security has long rested: taxation of benefits, the

parity of treatment between employers and employees, and general fund financing. These conventions are deeply ingrained in the Social Security system and can only be abandoned at substantial risk of losing public support for the system itself. In my opinion, the present circumstances do not justify doing so.

There are other flaws in the Commission recommendations and, to be fair, a number of good points as well. Overall, however, I cannot escape the conclusion that the plan needs much improving. Whether this will happen remains to be seen. At least one White House insider is freely predicting quick legislation approval with few, if any, changes. He points out that a lot of "heavyweights" are already backing the package. He could be right.

He may be wrong.

There are also some heavyweights who are convinced the package must be amended in order to make it fairer and more financially sound. Among those who insist on amendments and oppose the plan in its present form are the 13 million-member American Association of Retired Persons and the largest association for small businesses -- who will feel the most impact of the plan -- the National Federation of Independent Business. If these and other citizen groups will energize their memberships to protest the Commission's plan and work to develop an alternative package, there is reason to hope amendments can be adopted that will significantly improve the final legislation.

As this issue develops, I expect strong support from employees and from business men and women. They have important economic interest at stake. However, I am increasingly convinced that support will also be forthcoming from retirees and the elderly. Based on many conversations with senior citizens, I doubt they will take a narrow or selfish view. They have much more at stake than merely their personal well-being. They are also concerned about their children and grandchildren. The last thing they wish is to leave a heritage of economic wreckage or an unfair retirement system.

The Commission's Major Accomplishment -- And Some Objections

The most important single achievement of the Commission, under the patient, considerate, and scholarly leadership of Chairman Greenspan, has been to marshall a consensus for admitting the problem. Some of those who now hail the recommendations were quite recently claiming no changes were needed. They said, in effect "...don't let them touch Social Security...all this talk about reform is just a plot to wreck Social Security...."

As the Washington Post pointed out, "The first step toward solving any problem is to get people to admit the problem exists. The National Commission on Social Security Reform, meeting this week in Washington, has already made a huge contribution by getting its members of different political persuasions to

agree that Social Security's problems are real, urgent, and -- within reason -- measureable."

A number of the Commission's recommendations make sense to me. On balance, however, in its present form, the plan falls short of the kind of balance program needed to restore public confidence in the solvency and fairness of the system. The plan:

- Does not meet the minimum long-term need of 1.8% of payroll, but leaves needed reforms open for further consideration;
- Settles the short-term problem at the low end of projected need;
- Tax benefits for the first time;
- Will create a severe "notch" between Social Security recipients whose adjusted gross income is just above and those just below the arbitrary point at which benefits are to be taxed; the result is unfair and will be so perceived;
- Grants refundable tax credits to employees, thereby upsetting the historic parity between employees and employers;
- Provides permanent general fund financing;
- Prohibits withdrawal of State and local government units, a legislative solution which may be subject to successful challenge on constitutional grounds;
- Avoids decision on changing the normal retirement age, considered by many experts and earlier advisory groups as essential to the long-term stability of Social Security;
- Including revenue derived from expanded coverage, <u>increased taxes account for 75% of deficit reductions</u>; (63% if expanded coverage is excluded);
- In the long term, excluding the portion (.58% of taxable payroll) left unresolved and including revenues from expanded coverage, <u>new taxes account for 91% of deficit reduction</u> (not including revenues from expanded coverage, 66%).

<u>Congress Must Act Promptly</u>

The need for congressional action is immediate.

- Every single minute of every hour of every day, on the average, OASDI pays out $17,000 more than it takes in.

- Present reserves in the retirement system will be insufficient to fully meet benefit payments by mid-1983, unless Congress enacts corrective legislation.

- In 1950, there were 16 workers paying Social Security taxes for each beneficiary. Today there are just three workers per beneficiary. By 2025, there may be only two workers per beneficiary. The result? A steeply rising burden on workers whose Social Security taxes keep the trust funds solvent.

- A fourth of U.S. taxpayers are paying more in Social Security taxes than in federal income taxes, and sharply higher tax rates are scheduled to support projected benefits.

- Polls show Americans are losing faith in the Social Security system. Fifty-four percent of those surveyed by CBS/New York Times doubt that Social Security will have money to pay benefits in the future.

How does Congress begin the important work of enacting a fair retirement system? I suggest adopting five principles to guide its work:

1. Current basic level of benefits on which so many persons depend, must not be reduced.

2. Needed changes -- whether in future rates of benefit increases, retirement ages, eligibility standards, etc., should be made gradually, not in a drastic or abrupt manner.

3. Economic projections, on which the system is based, should be conservative -- in short, we should hope for the best, but plan for less optimistic economic conditions.

4. Permanent solvency must be achieved. Stopgap solutions are not satisfactory.

5. Public confidence must be restored. The politics of fear -- which has surrounded past Social Security decision-making -- must end.

No solutions are easy, but we are in firm agreement on the goal: Our elderly must feel assured of our good faith, and Social Security must be restored and maintained as a valuable bond between generation and generation.

Toward that end, it is important that everyone know the basic facts of Social Security...how it began, how it grew, who it affects, what its future will be.

Social Security Highlights

- One trillion dollars will be paid out in Social Security benefits the next four years.

- Thirty-six million Americans receive Social Security benefits.

- Most Social Security retirees today receive more in benefits than they paid in taxes -- by a ratio of 5 to 1.

- Social Security benefits have risen sharply over the past few years. In the beginning, Social Security was designed to be supplemental retirement income. Today, Social Security benefits on average equal 60% of their after-tax working income.

- In recent years, Social Security benefits have increased faster than increases in wages or prices.

- Americans are living longer. Women becoming 65 in 1982 live, on average, an additional 19 years; men live an additional 15 years. This is a 20% increase in 40 years.

- Social Security comprises one-fourth of the total federal budget and 5% of the Gross National Product.

- The maximum Social Security tax an employee working from 1935 to 1982 could make is $17,000. This will nearly triple to $44,000 by 1990, just seven years.

- Social Security taxes for the average worker have increased 2,000% since 1935; the maximum Social Security tax has increased 6,500%.

- Fifty-one percent of all Americans pay more in Social Security taxes than federal income taxes.

- Even with the additional $437 billion in tax increases that will be implemented this decade because of a 1977 law, Social Security will exhaust its reserves and total outgo will exceed income by the mid-1980s, unless Congress takes decisive action.

- When Social Security began, only retirement benefits were paid to workers. Today, there are about 21 general types of benefits provided under Social Security.

- One indication of the growth in Social Security: When President Franklin Roosevelt proposed his Social Security program in 1935, he contemplated Social Security expenditures would be about $1.3 billion in 1980. Actual 1980 outlays: $149 billion.

- In designing his Social Security retirement program, President Roosevelt rejected the use of general revenues, wanting instead for the program to pay for itself through separate financing.

- The National Commission on Social Security Reform identified more than 80 options for restructuring Social Security financing to achieve short- and long-term solvency. One example of potential savings through gradual changes in Social Security: delaying the full cost-of-living increase two months for three years will save $40 to $60 billion this decade alone.

Social Security...

...In the Beginning

Social Security was created in 1935 to partially replace earnings lost through retirement or death. Initially, only commerce and industry workers (about five out of 10 jobs in America) over age 65 were eligible for benefits.

Benefits were supplemental income...about 29% of pre-retirement income (known as the "replacement rate"...the percent of working income replaced by retirement income).

Payroll taxes financed these benefits on a pay-as-you-go basis. Initial taxes were also small...$60 per worker maximum (cost split between employer and employee). In 1980 dollars, this tax equalled $360.

...Program Expansion

Congress and Presidents dramatically expanded the program through 13 expansionary laws and seven automatic benefit increases (although twice Congress slightly reduced benefits). Today, three separate trust funds pay benefits and collect taxes. Two trust funds -- Old Age and Survivors (OASI) and Disability (DI) -- pay cash benefits directly to recipients. The third -- Hospitalization (HI) -- pays costs of medical care provided to the elderly and disabled.

Nine out of 10 jobs in America are included in Social Security. The program now pays retirement, early retirement, widow, children, parent, disability and hospitalization benefits to 35.4 million. Basic benefit rules were expanded, and later made inflation-proof through automatic cost-of-living increases. Generally, eligibility has been liberalized. Cash benefits -- not counting the value of hospital care -- as a percent of pre-retirement income has increased to 49.3%.

Consequently, the tax rate, tax base and number of taxpayers have also increased. Today, the combined employee-employer maximum tax is $4,340. One hundred ten million workers pay taxes; 11 million (mostly government employees) do not. While the number of taxpayers has increased, the worker/recipient ratio has not. In 1940, there were 16 workers supporting each recipient. Today, the ratio is only 3 to 1, and declining.

...As Part of the Federal Budget

Total Social Security outlays comprise about one-quarter of the budget. Including all programs, 27.7% of the federal budget is devoted to elderly needs. By 1985, pensions, national defense and interest payments will comprise 75% of the U.S. budget. Total Social Security and other senior citizen federal outlays amount to $15,000 per elderly couple.

...As Part of the National Economy

Benefits comprise about 5% of the real gross national product, and it's rising. If no changes are made, and if government spending were to be maintained at 20% of GNP, then by 1985 other government spending must be cut 13.1%.

Since Social Security is a major component of the economy, it is particularly sensitive to economic fluctuation. Each 1% of inflation increases costs $1.5 billion annually (although the higher costs are offset in part by higher revenues). Each 1% of unemployment reduces revenues by $2 billion. Social Security tax increases exacerbate unemployment. For example, the Congressional Budget Office projected that the Social Security tax increases since 1977 reduced employment by 500,000 jobs. Accelerating to 1983 the tax increase scheduled for 1990 is projected to increase unemployment two to four million job years by the end of the decade.

...Economic and Demographic Developments

Since Social Security began, significant changes have reshaped America. Once an economy dominated by manufacturing and agriculture, America is quickly becoming a service based economy. Once men dominated the work force; now half of all jobs are held by women. In 1935, a third of all elderly Americans were impoverished; today less than 15% have incomes below the poverty threshold. Forty years ago, less than three marriages in 10 ended in divorce; today five of 10 marriages end in divorce. Family size has declined.

Americans are living longer; on average, men live 15 years past retirement, and women 19 years...a lifespan increase of 20% over 40 years. Even so, more Americans are opting for early retirement before age 65. Today 90% of Americans who retire opt for retirement before age 65.

...As Part of the Lives of Recipients

Social Security is a financial lifeline to most recipients. Fifty percent of benefits are paid to elderly single members of households for whom Social Security is their principal income. Median income for all those over 65 is $ 5,771. Average median income for a retired couple receiving Social Security is $14,300.

Newly eligible retirees -- 80% of whom opt for early retirement -- generally are improved financially. Median retirement income is $14,259, of which 42% is Social Security. Gross family assets -- including personal residences or automobiles -- exceed $48,000. Seventy percent of new retirees either outright own their home, or pay less than $200 in monthly mortgage or rent. The average value of a new retiree's home is $54,000.

Most Social Security recipients today will receive far more in benefits than they contributed in taxes...by a ratio of 5 to 1. This ratio will decline for future recipients. Social Security benefits are progressive... meaning that low-income receive relatively higher benefits than middle- or high-income.

...As Part of the Lives of Workers

The maximum Social Security tax a worker and his employer could have paid from 1937 to 1982 is $16,932. This will nearly triple by 1990 when the maximum tax possible rises to $43,000.

For 51% of all families -- and practically all low-income families -- they pay more Social Security taxes than federal income tax. This is also true for employers, particularly the marginally profitable.

...Benefits

One trillion dollars will be spent from the Social Security trust funds in the next four years (1983 to 1986), an amount roughly equal to that spent from 1935 to 1981. Four-year spending and income by trust funds:

	(billions) Outlays	Income
Old Age and Survivors (OASI)	$728	$634
Disability (DI)	83	135
Hospitalization (HI)	198	210
	$1009	$979

--Social Security Administration
September 1982

Monthly Social Security costs exceed $17.9 billion.

Of trust fund outlays...
...67% go to retirees, their spouses, children or survivors.
...9% go to the disabled, their spouses, children or survivors.
...22% pay medical costs.

Cash benefits paid from the OASI and DI trust funds:

	(millions)	Average annual benefit
Retired workers	20.3	$4,686
Their spouses	3.0	2,350
Their children	.5	1,841
Total	23.8	
Survivors		
Widowed parents	.5	3,372
Widowed spouses	4.4	4,210
Children	.2	3,278
Disabled, widowed spouses	.1	2,760
Parents	.01	3,732
Total	5.21	
Disabled workers	4.1	4,944
Their spouses	.4	1,452
Their children	1.0	1,428
Total	5.5	
Special Age 72	.1	

The maximum possible benefit for a retired couple with children under 18 is $14,748 annually.

These benefits do not include the value of medical benefits provided through Medicare. Since all benefits are tax free, current benefits are about 60% of after-tax, pre-retirement income.

...Taxes

About $1 trillion in taxes has been raised since 1935. If a worker contributed the maximum taxes from 1937 to 1982, he would have contributed $17,000 (an amount matched by his employer). By 1990, this will nearly triple to $44,600.

Today, the total Social Security tax is 13.4% of up to $32,400 of income. This rate will increase to 15.3%, and the base up to $45,600 of income by 1990.

The average tax paid by a worker and his employer annually is about $2,000.

...Individual Equity and Social Adequacy

Social Security emphasizes social adequacy, not individual equity. The social adequacy basis is evident through the provision of relatively high minimum benefits, paying proportionately higher benefits to low average wage earners, the imposition of maximum benefits regardless of past earnings, and the payment of derivative benefits at no additional cost to the worker. While there are some elements of individual equity -- benefits in relation to earnings -- Social Security, over the years, has moved away from individual equity and more toward social adequacy.

...As It Affects Women

Social Security was created when men dominated the work force. Since then, a number of economic and demographic changes involving women affect Social Security and its future. More women work today, are living longer, and the divorce rate is increasing. Since these changes were not contemplated at the time Social Security was created, retirement benefit adequacy for women is a significant concern because a high percentage of the elderly poor are widowed, divorced or were never married. It is also a concern since the current labor force -- once male dominated -- has a high percent of women workers who pay Social Security taxes, and expect to receive just benefits.

Problems in providing benefits to women exist in part because benefits are linked to an individual's earnings and work history. Working women frequently have interrupted work histories due to child rearing. Women also have had generally lower career earnings than men. As a result, a large proportion of women fail to qualify for Social Security benefits, qualify for benefits on their lower earnings, or they qualify based on their husband's benefits, and then receive half of these benefits. Some of these concerns have been addressed by changes made in the computation of spouse benefits, but questions of equity continue to be raised with regard to women, particularly those who work. The National Commission on Social Security Reform identified 12 options that address the issue of making Social Security equitable for women.

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...and Other Federal Pension Policies

Since Social Security was created, there have been significant developments in federal pension policy. Among them:

1. Individual Retirement Accounts: Most workers can contribute up to $2000 annually tax free into Individual Retirement Accounts, the proceeds of which are invested, and then paid out as retirement income as early as age 59 1/2. Workers with wives who do not work contribute up to $2,275 annually.

2. Keogh retirement plans: The self-employed can set aside $15,000 annually to help replace earnings lost through retirement.

3. Employee Retirement Income Security Act: Regulates company sponsored, tax-deferred pension plans.

Sixty percent of workers between age 25-34 are covered by retirement pensions other than Social Security.

...Financial Status

Social Security is going broke. High inflation, slow economic growth, rising numbers of beneficiaries, increased benefit levels and an eroding tax base have increased Social Security's costs, and depressed revenues. The retirement and survivors trust fund has run a deficit since the early 1970's. This deficit erased the once large cash reserves...to the point where Congress had to enact legislation permitting the OASI trust fund to borrow from the DI and HI trust fund to make full and timely benefits. By the mid-1980s, however, even these reserves will be exhausted. Technically, Social Security will have no choice but to either reduce all benefits by the amount of income then on hand, or delay checks until enough income is on hand to pay full benefits.

Thus, Congress must achieve two goals in the short-term: Enact legislation that eliminates the future deficits, and achieve adequate reserves so that enough money is on hand to pay two months of benefits.

The National Commission on Social Security Reform unanimously agreed that $150-200 billion is needed this decade to assure Social Security solvency. In addition, the Commission projects that Social Security needs to either increase revenues or reduce spending $1.6 trillion over the next 75 years to guarantee solvency.

To make changes necessary to insure solvency in Social Security first requires understanding its current benefit and tax structure.

A. Coverage

Originally, Social Security only provided benefits to those age 65 and over working in commercial and industrial employment. Only five out of 10 jobs in America were covered.

Since then, Congress expanded Social Security to cover about nine out of every 10 jobs. Coverage was extended to most self-employed, hired farm and domestic workers, armed forces, and professionals. Optional coverage was provided clergymen. State and local governments and non-profit organizations can opt for Social Security coverage. Both state and local governments and non-profit organizations, if they elect Social Security coverage, can later elect to opt-out of Social Security.

For certain military personnel, the armed forces pays Social Security taxes up to a maximum of $1,200 (representing the cash value of non-taxable income). This contribution is not matched by the servicemen.

Work not covered by Social Security is federal civilian employment, non-covered state and local governments (30% are not covered), and non-covered, non-profit organizations (about 15% are not covered).

B. The Benefit Structure -- Retirement and Survivors Benefits -- OASI

Four principal components comprise the Social Security benefit structure...eligibility, computing initial benefits, annual benefit increases and types of benefits.

1. Eligibility

To be eligible a worker must be "insured" through earning "quarters of coverage." Some explanation...

Becoming "fully insured" means working in a Social Security covered job (and thus paying Social Security taxes) and earning at least $340 in a calendar quarter. Doing so entitles a worker to a quarter of coverage. A worker receives one quarter for each $340 up to a maximum of four quarters. With 31 quarters -- as little as eight years work -- a worker and his family is entitled to full Social Security benefits based on his earnings. The number of quarters required will increase one quarter for each year until a maximum of 40 quarters is reached.

"Currently insured status" applies only to a worker dying before retirement. A worker becomes currently insured -- and thus eligible for benefits -- by attaining six quarters in the 13 quarters preceding death.

Of course, a worker does not automatically receive benefits when he becomes insured. A condition for receiving OASI benefits is reaching retirement age or death. Full benefits are paid at age 65; lesser benefits at age 62. Age eligibility varies for other OASI benefits...and are described in Part C.

2. Calculating Initial Benefit Levels

Benefit levels for retired and disabled workers, dependents and survivors are generally related to the past earnings of the covered worker, and more directly to a percent of the benefits that the covered worker will receive.

There are four basic steps used in most cases to compute a worker's Social Security benefit:

a. "Computation Years"...That is, the years worked in Social Security employment between age 21 and the year of death, disability, or the attainment of age 62, then drop out the five lowest income years.

b. "Index Earnings"...The earnings of each year are converted, or indexed, into more recent levels by increasing them to reflect changes in wage levels since the time they were actually earned.

   Indexing creates an earnings record that reflects the value of the individual's earnings relative to national average earnings in the indexing year. The indexing year is the second year before the year in which the worker attains age 62 (in other words, age 60), becomes disabled or dies. Earnings after the indexing year are counted at their current value (not indexed).

   Earnings are indexed by increasing the actual earnings in each year after 1950 by the percentage increase in national average wages between that year and the indexing year.

c. "Average Indexed Monthly Earnings" (AIME)...These indexed earnings are then averaged to a monthly amount...known as the AIME. Simply divide total indexed earnings by the number of months in the computation years.

d. "Primary Insurance Amount" (PIA)...A percentage formula is applied to the AIME to derive the primary insurance amount, or basic benefit level. The 1982 formula is:

90% of the first $230 of AIME, plus
32% of AIME over $230, but less than $1,388, plus
15% of AIME over $1,388

An example follows:

A worker retires at age 62 in 1982, and had earned $2,900 in 1960. The $2,900 would be multiplied by the ratio of average annual wages in 1980 ($12,513), and divided by average annual wages in 1960 ($4,077):

$$\frac{\$2,900 \times \$12,513}{\$4,077} = \$9,056$$

Although the worker's actual earnings for 1960 were $2,900...his wage indexed earnings would be $9,056.

This calculation is applied to each year between 1951 and 1980 (the second year prior to his attaining age 62). Once total indexed earnings are obtained, they are divided by the number of months in the computation years. This monthly amount is the AIME.

Let's assume that after this worker's entire wage record is indexed, his AIME is $420. Let's run this through the PIA benefit formula:

90% of the first $230	=	$207.00
32% of amount above $230	=	60.80
Total PIA		267.80

His PIA is $267.80. This is the amount he would receive at age 65. Since he opted for early retirement at age 62, he receives 80% of that total...or $214.00.

3. Types of Benefits

As already mentioned, benefit levels for retired and disabled workers, dependents and survivors are generally related to the past earnings of the covered worker, and more directly to a percent of the benefits -- or the primary insurance amount -- that the covered worker will receive. Below is a list of benefits provided through OASI, and the percent of PIA each receives:

1. Full retirement: 100% of PIA/eligible at age 65/eligible for reduced benefits at age 62.

2. Widowed spouses: 100% of PIA/eligible at age 65/eligible for reduced benefits at age 60.

3. Spouses: 50% of PIA/eligible at age 65, or younger if caring for a disabled child, or a child under age 16/eligible for reduced benefits at age 62.

4. Divorced spouses: 50% of PIA/same eligiblity for spouses, but must have been married at least 10 years.

5. Children: 50% of PIA/eligible until 18 if child of a retired or deceased insured worker, or until 19 if still in high school. College benefits to age 21 will be phased out by 1985.

6. Surviving children: 75% of PIA/eligibility same as 5.

7. Parents: 75% of PIA/eligible if surviving spouse caring for a child under 16 at time of death.

8. Maximum Family Benefits: 188% of PIA (175% of PIA for high income earners) if total benefits to a family exceed 188% of PIA (or 175%) then all benefits for family members is reduced by an amount to bring all benefits under the 188/175% caps.

9. Lump Sum Death Benefit: Not a percent of PIA...just a $255 payment on the death of a worker. Paid to survivors.

10. Transitionally insured benefits: Not a percent of PIA...is paid to those over age 65 with insufficient quarters of coverage.

11. Special age 72: Not a percent of PIA...paid to those over 82 with insufficient quarters of coverage to qualify for a retired worker benefit and who do not receive public assistance.

12. Special minimum: Not a percent of PIA...increases benefits for workers with low average earnings.

13. Retroactive: For persons over age 65, retroactive benefits can be paid up to six months. For disabled beneficiaries, benefits can be paid retroactively up to 12 months.

14. Currently Insured: OASDI benefits paid to survivors of workers not fully insured but who worked at least six of the 13 quarters preceding death.

4. Annual Cost-of-Living Adjustments

All benefit levels are increased each year when the Consumer Price Index exceeds 3% increase each year, and when it does, the full CPI increase -- not just the amount above 3% -- is applied to benefit levels automatically without action by Congress.

5. The Retirement Test

Under current law, all benefits are reduced when a beneficiary's earnings record exceeds certain levels. This is called the earnings test, or retirement test, and applies to beneficiaries until they reach age 72 (in 1983 and later, the retirement test will not apply after age 70). The amount of annual earnings permitted in 1982 without causing a benefit reduction is $4,440 for persons under age 65, $6,000 for persons age 65-72. Each $2 of earnings in excess of these amounts reduces annual benefits by $1.

6. Policy Summary

These five sections summarize the mechanics of the benefit and eligibility rules. But what is the overall effect of this formula, and what are the policy implications? Several aspects should be mentioned:

First, only minimum requirements are imposed to become eligible for Social Security. The fact that eligibility is so easy to attain is the reason why there are so many who receive more than one federal pension...the so-called "double-dippers" who receive "windfall" benefits.

Second, the entire benefit structure heavily favors those with low average earnings. This does not necessarily mean the low income...it means those with sporadic work histories, those who often shift between covered and non-covered Social Security employment, go through periods of unemployment. It achieves this effect through three ways...the low minimum eligibility requirements, dropping out of the computation years the five lowest income producing years, and heavily weighting the PIA formula to the low-income.

Third, wage indexing provides retirees with a significant though usually not noticed added benefit: By basing retirement benefits on real wage increases, it permits retirees to share in retirement the overall productivity growth achieved by workers.

Fourth, wage indexing, coupled with drop-out years and automatic cost-of-living increases for all benefits, is achieving a remarkable effect. This formula increases real benefits paid to new beneficiaries each year. For example, those who retire in the year 2040 will receive double the current value of benefits paid to those retiring this year.

Fifth, replacement rates -- the percent of working income replaced by retirement income -- have increased sharply. When Social Security began, the average replacement rate was about 29%. Today, the average is 49% for all beneficiaries. That is for pre-tax income. The replacement rate today for after-tax income is closer to 60%...meaning that in retirement a worker will receive 60% of his pre-retirement income. Incredible though it may seem, a worker with low average earnings in his lifetime who retired in 1981 will in retirement earn more in Social Security benefits than he earned while working.

Because of legislation enacted in 1977, these high replacement rates will gradually decline somewhat.

Replacement rates have increased primarily because of legislative and automatic benefit increases. Cost of living increases the past decade have been generous. From 1970 to 1981, pre-tax wages went up 122%; the CPI increased 136%; Social Security benefits have increased 205%.

7. Program Growth Since Social Security Began

Although the number of benefits has vastly increased and the requirements determining insured status have been liberalized, the basic notion of insured status has not changed since Social Security began. In 1940, three requirements had to be met before a worker or his family received benefits: The worker had to be industrially or commercially employed, earning at least $50 ($568 in 1982 dollar) in at least six calendar quarters, and be over age 65.

Since then, almost all age requirements for benefit eligibility have been reduced, types of benefits expanded. Benefits are now increased automatically each year.

C. Benefit Structure -- Disability Insurance (DI)

Social Security disability began in 1956, and operates on the same insured status concept used by OASI.

To be eligible for disability, a worker must be both fully insured under OASI, as described in Section II-A, and disability insured. To be disability insured, the worker must have 20 quarters of coverage in the 40 quarters immediately preceding disability. Generally, disability is defined as the inability to engage in gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, or last at least 12 continuous months. Before benefits can be paid, a waiting period must lapse of at least five months, benefits are paid up to age 65, and then regular full retirement benefits are paid, and benefits can be paid retroactively up to 12 months.

A worker disabled in the line of work need not file for worker's compensation. Disability benefits are offset by all other disability benefits, with the exception of veterans disability benefits. Currently, Social Security and the states are reviewing all disability cases, and terminating benefits to those who never were or no longer are eligible. Benefits are being denied in about 50% of all cases, but are restored on appeal to administrative law judges about 64% of the time. Appeal takes six months or longer, and benefits are paid for only 60 days during that time.

Five types of benefits are paid:

1. Disabled worker: 100% of PIA/eligible 5 months after disability

2. Disabled surviving spouse: 100% of PIA/eligible at age 60/eligible for reduced benefits at age 50

3. Disabled child: 50% of PIA/eligibility begins at age 18

4. Disabled surviving child: 75% of PIA/eligibility begins at 18

5. Retroactive: up to 12 months

Only benefits for disabled workers (and their dependents) are paid out of the DI trust fund. Benefits #2 - #4 are simply the dependents and survivors benefits paid out of the OASI trust fund.

D. The Benefit Structure -- Hospitalization Insurance/Medicare (HI)

Created in 1965, Medicare is a national health insurance program for the aged and certain disabled persons. Almost all citizens over age 65 are automatically entitled to Medicare coverage. If they are not, they can purchase the coverage for an annual premium of $1,360.

Medicare has two parts: Part A, hospital insurance, pays hospital, post-hospital and home health services. This program is financed through Social Security payroll taxes. Part B, supplementary medical insurance, is a voluntary program, financed through individual medical premiums, and through general revenues. Elderly beneficiaries pay one-quarter of the costs (about $150 a year with a $75 deductible), the disabled pay one-seventh, and the federal government pays the difference. Services and fees vary between the two programs.

PART A:

During each benefit period -- whenever a patient has not been in a hospital for 60 consecutive days, Medicare Part A pays for the following services:

Inpatient Hospital Care: Ninety days of coverage. For the first 60 days, all costs are paid, except for the first $304 deductible. For the last 30 days, Medicare pays for all but $76/daily in covered costs. After that, patients can draw upon a lifetime reserve of 60 hospital days. For reserve days, all costs after the first $152 each day are paid.

Nursing Facility Care: One hundred days of coverage are paid for. The first 20 days of care are free for the patient. After that, all patients pay $38 each day, and the rest of the cost is paid by Medicare.

Home Health Care: Medically necessary home health care visits by nurses, therapists and other health workers are paid for by Medicare.

There is no limit to the number of benefit periods a patient can have.

Institutions are reimbursed for their reasonable costs incurred in providing services to Medicare patients. Reasonable costs are determined by law and regulation. Services and costs are reviewed by Professional Standards Review Organizations. Medicare is administered by the Health Care Financing Administration which, in turn, contracts much of the operational work to private sector intermediaries.

PART B:

During any calendar year, Part B pays 80% of reasonable charges for services rendered by doctors, osteopaths, chiropractors, psychiatrists, independent therapists. Most medical services and outpatient and laboratory services are covered.

E. Administration

Administration costs in 1981 were $1.7 billion or 1.2% OASDI benefit payments or 1.3% of revenues.

Retirement and survivors insurance is largely administered by the federal government, with disability insurance administered by the states.

F. Taxes

In 1982, the combined employer-employee tax rate is 13.40% on earnings up to $32,400. The maximum tax today is $4,342. Self-employed pay 150% of the employee's share of the tax.

In 1977, Congress enacted legislation that significantly increased taxes during the rest of this decade. By 1990, the tax rate will increase three times, to 15.3%, and the tax base seven times. The total maximum tax paid in 1990 will exceed $9,400. The 1977 law will pump another $437 billion in additional taxes into the Social Security Trust Fund.

Under current law, Social Security benefits are tax free.

Social Security only taxes payroll, and no other tax revenues flow into the Social Security trust funds.

G. Social Security Tax, Benefit, Trust Fund, Chronology, Charts, Tables and Graphs

The following pages contain selected tables highlighting key aspects of Social Security.

IV. References/Recommended Reading

Sources: Social Security Administration, General Accounting Office, Congressional Budget Office, Office of Management and Budget, Congressional Research Service, House Ways and Means Committee, Senate Finance Committee, Senate Select Committee on Aging, selected books and publications.

For those interested in further reading, perhaps the five best references about the past, present and future of Social Security are:

Policymaking for Social Security

--Martha Derthick
The Brookings Institute

Developments in Aging: 1981: Volume 1

--Senator John Heinz, Chairman
Senate Select Committee on Aging

Social Security

--Robert J. Myers
McCahan Foundation Book Series

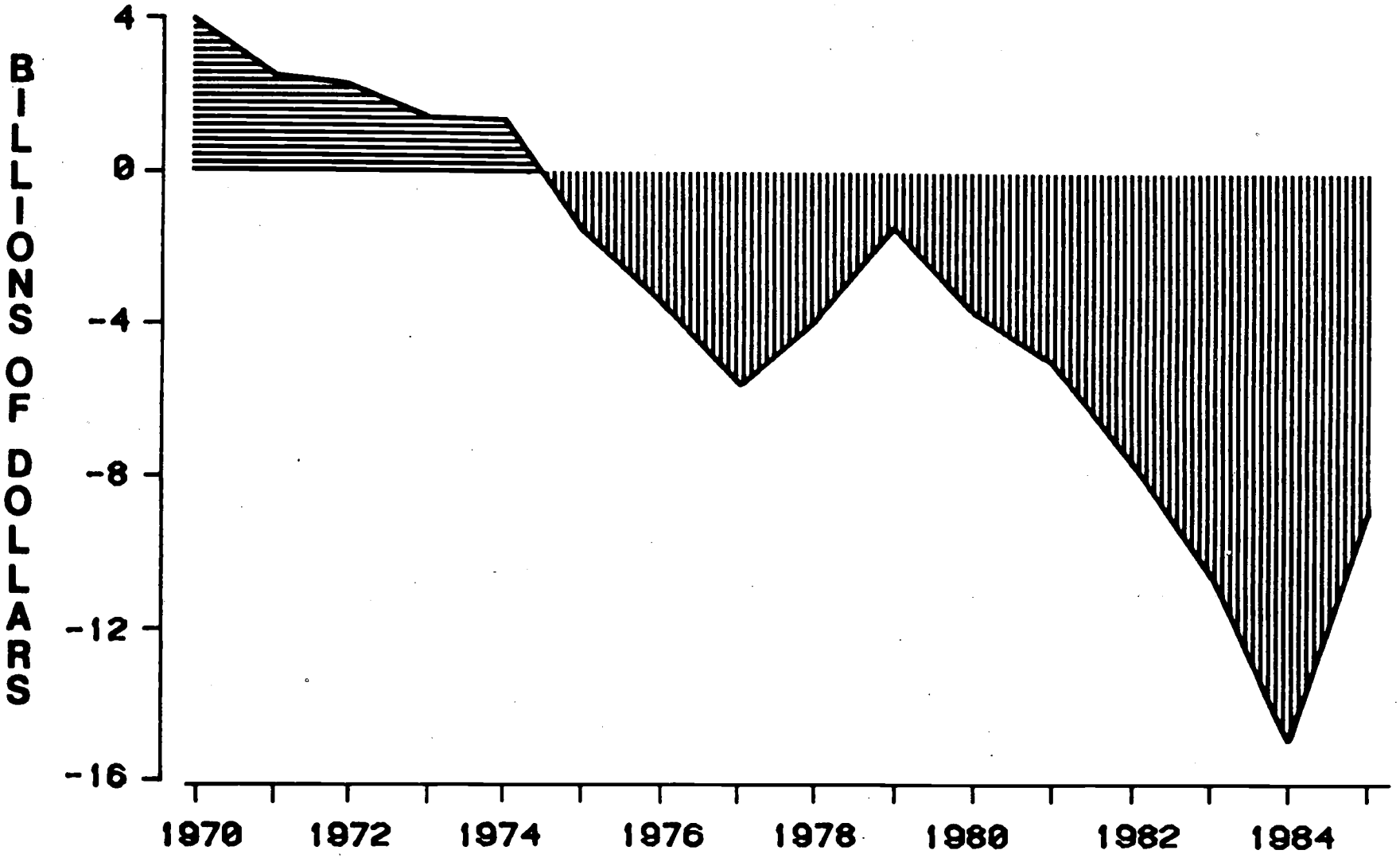
Major Federal Expenditures in Jurisdiction of the Senate Finance Committee

--Senator Robert Dole, Chairman
Senate Finance Committee

Social Security: The Need For Action

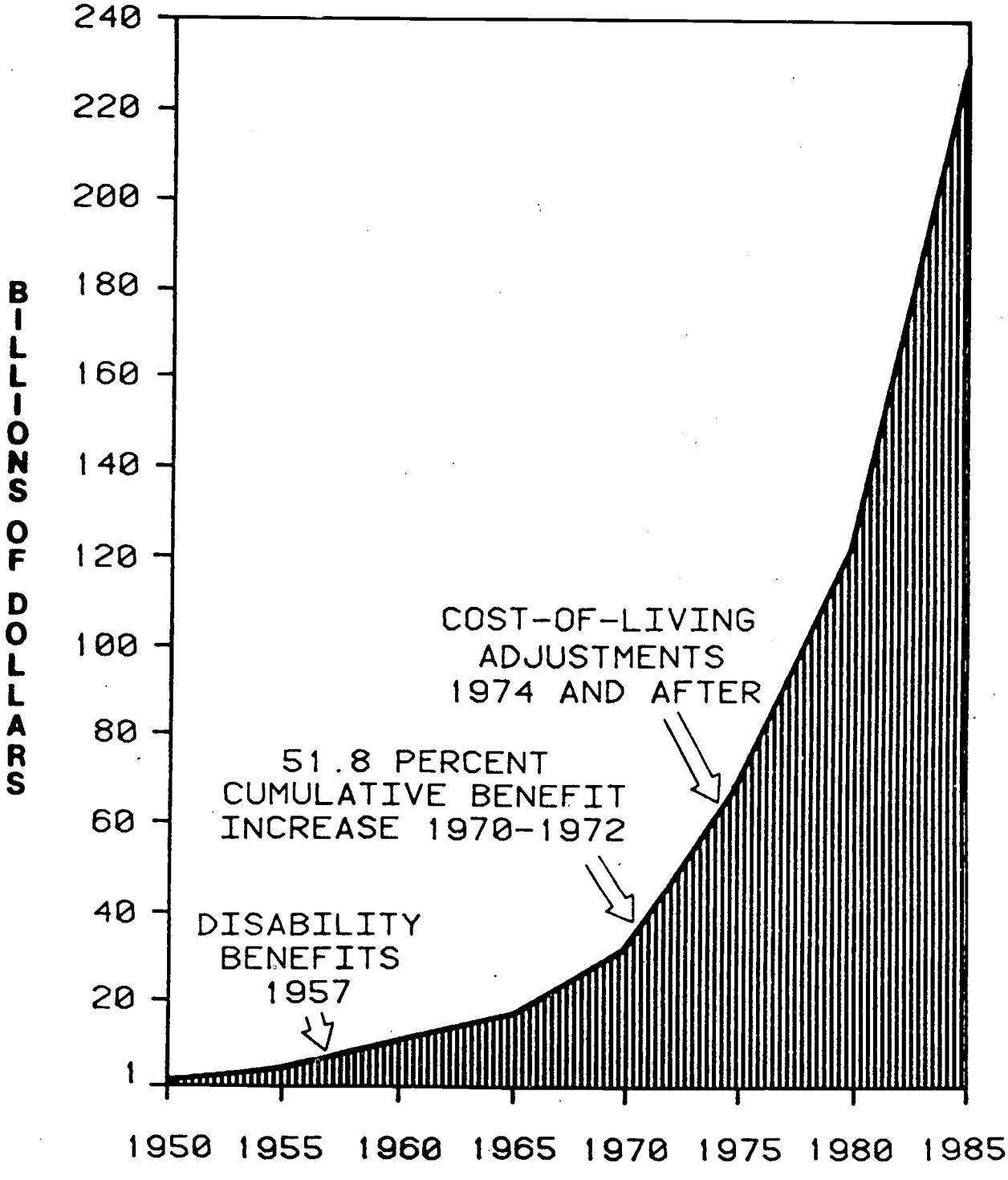
--Robert Beck, Chief Executive Officer
Prudential Life Insurance Company

SOCIAL SECURITY'S DEFICIT



NOTE: 1981-1985 BASED ON INTERMEDIATE PROJECTIONS FOR OASDI

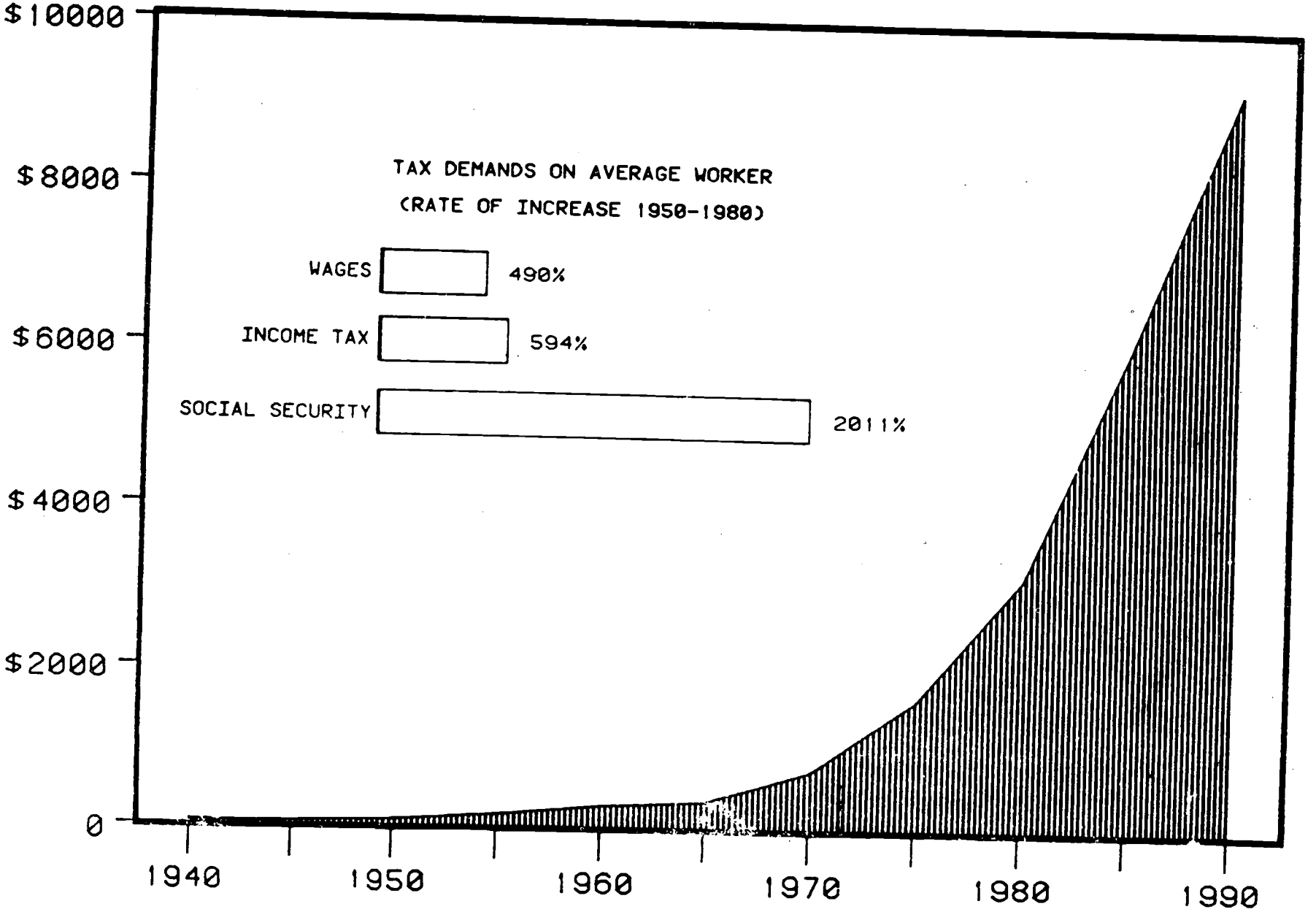
TOTAL ANNUAL EXPENDITURES
OASI AND DI PROGRAMS COMBINED



NOTE: 1985 BASED ON INTERMEDIATE PROJECTIONS

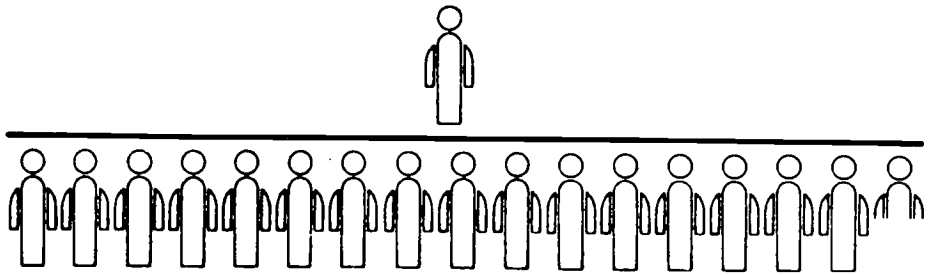
MAXIMUM SOCIAL SECURITY TAX

EMPLOYEE AND EMPLOYER COMBINED



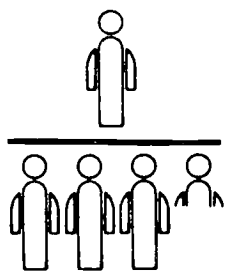
WHO PAYS FOR SOCIAL SECURITY

1950



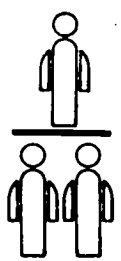
16.5 WORKERS PAYING
IN FOR
EACH BENEFICIARY

1980



3.3 WORKERS PAYING
IN FOR
EACH BENEFICIARY

2030



2 WORKERS PAYING
IN FOR
EACH BENEFICIARY

PAYOUTS BY THE FOUR SOCIAL SECURITY FUNDS IN 1980

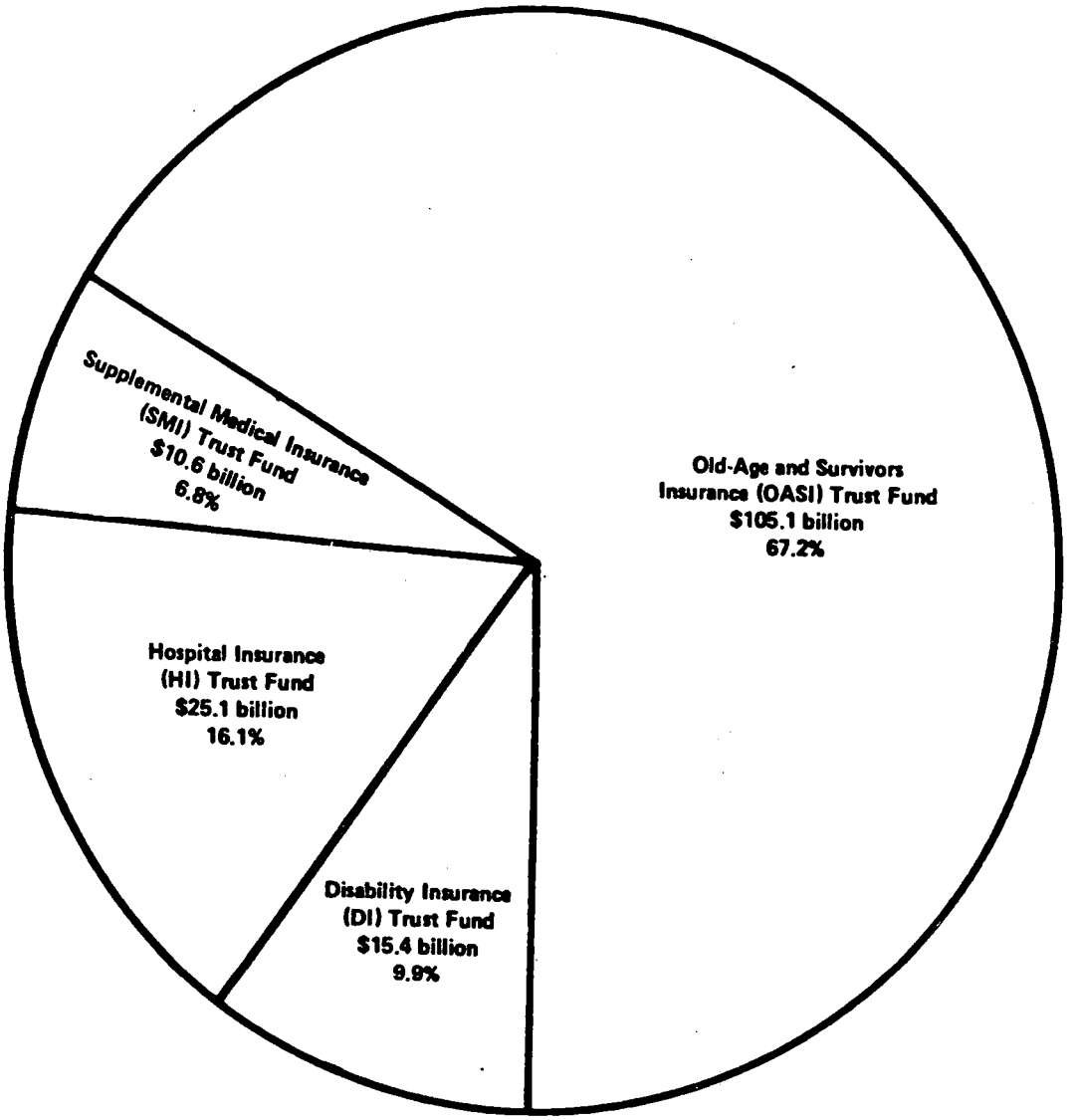


Chart A shows: Of the total benefits paid by Social Security in 1980 ($156.2 billion), more than two-thirds ($105.1 billion) came from the OASI trust fund.

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PAYOUTS BY THE OASI TRUST FUND IN 1980

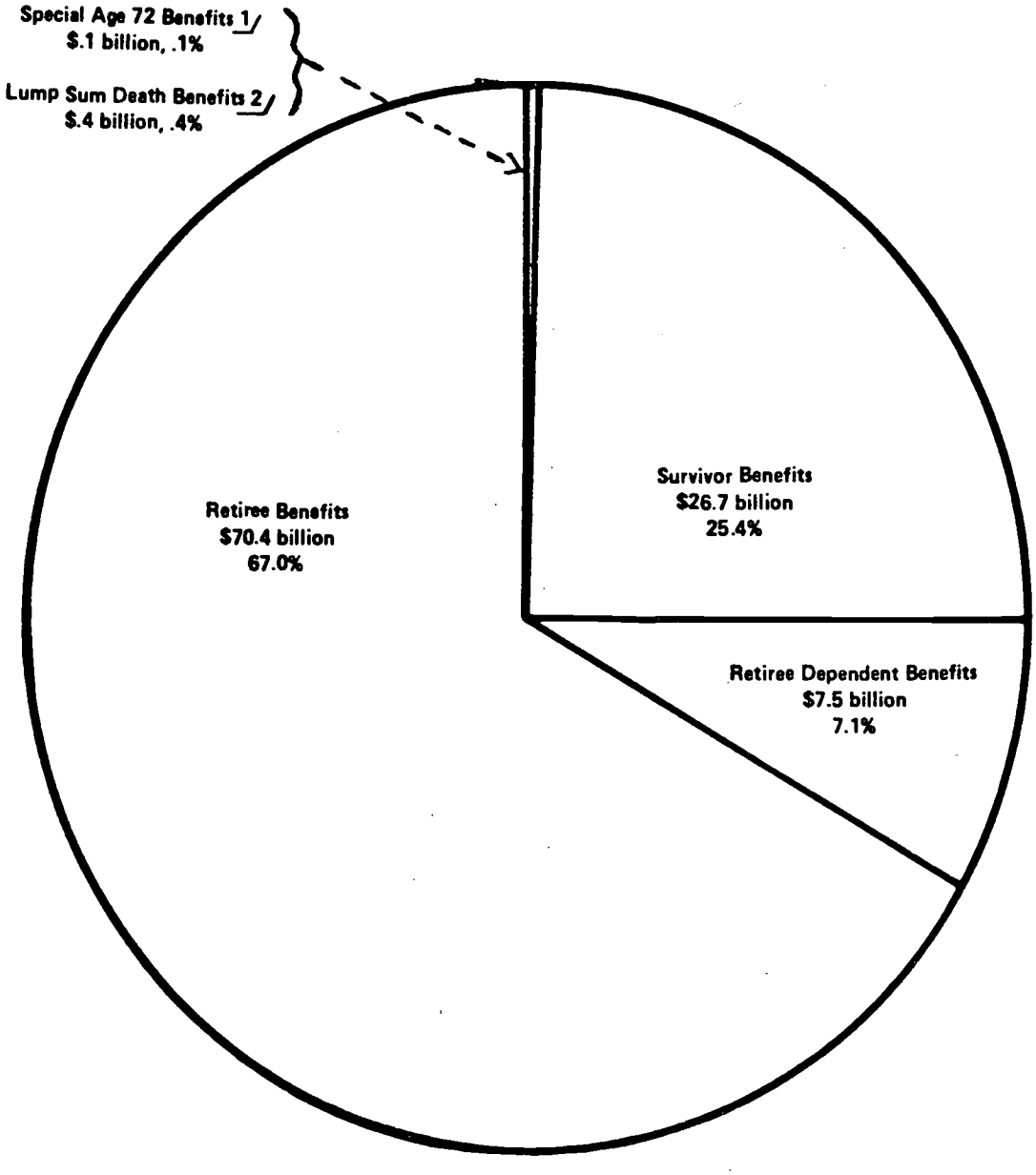


Chart B Shows: The total of benefits that survivors and dependents of retirees receive is less than half of what retirees receive.

1/ A special benefit is sometimes available to persons 72 or older who do not qualify for regular retirement benefits.

2/ A sum of $255 to apply to burial expenses. This benefit was restricted in 1981 to entitled spouses and children.

A Social Security Fact Sheet

Here, as supplied by the Social Security Administration, are some pertinent facts on social security's recipients, its taxpayers and its financial health.

NUMBER OF BENEFICIARIES

	1972	1977	April 1982
Old age and survivors trust fund	25,204,542	29,228,350	31,808,503
Disability trust fund	3,271,486	4,854,206	4,337,195

AVERAGE MONTHLY BENEFIT

	1972	1977	Sept. 1982
Retired worker	$157	$237	$405
Retired worker and aged spouse	273	404	692
Widowed mother, two children	383	547	925
Disabled worker	175	266	429
Disabled worker and family	363	538	869

SOCIAL SECURITY PAYROLL TAXES

The tax rate is for both employers and employees, and the increases shown are already scheduled; the wage base is indexed under the law, and increases assume moderate economic growth.

	Tax rate	Wage base	Maximum contribution
1972	5.20%	$9,000	$468
1977	5.85	16,500	965
1982	6.70	32,400	2,171
1983	6.70	35,100	2,352
1984	6.70	37,500	2,513
1985	7.05	40,500	2,855
1986	7.15	43,800	3,132
1987	7.15	46,800	3,346
1988	7.15	50,100	3,582
1989	7.15	53,400	3,818
1990	7.65	57,000	4,361

CASH OUTLAYS

(Calendar years, billions of dollars)

	1972	1977	1982 (est.)
Old age	$38.5	$75.3	$141.9
Disability	4.7	11.9	18.1

TRUST FUND RESERVES

Reserves (in billions) are shown for the old age and survivors, disability and hospital insurance funds; fund ratios—money on hand at the beginning of a year as a fraction of the amounts needed for the full year—are for old age and survivors combined with disability, and for all three funds combined.

	Year-end reserves			Fund ratios	
	OASI	DI	HI	OASDI	OASDHI
1972	$35.3	$7.5	—	93%	—
1977	32.5	3.4	—	—	—
1982	17.3	1.6	$15.8	15	22%
1983	-2.6	8.7	19.0	11	16
1984	-26.4	18.4	21.0	3	10
1985	-50.0	34.6	23.6	-4	5
1986	-77.6	53.8	28.0	-7	3

NEWLY ENTITLED RETIREE FAMILIES'
MEAN AND MEDIAN INCOMES,
BY SOURCE AND FAMILY TYPE (note a)

	Total reported income		Social Security retirement income		All other income (note b)	
	Mean	Median	Mean	Median	Mean	Median
All respondents	$14,259	$11,450	$ 4,777	$ 4,754	$ 9,482	$ 6,252
Early retirees	14,003	11,428	4,615	4,694	9,388	6,252
Regular retirees	16,411	13,303	6,134	6,681	10,277	6,350
Family type						
Early retirees:						
Retiree only	13,442	10,548	4,121	4,407	9,321	6,075
Retiree & spouse	17,082	14,521	7,500	7,463	9,582	7,200
Retiree, spouse, & children	16,759	16,200	7,965	8,810	8,794	7,200
Retiree & children	17,652	15,358	6,267	6,242	11,385	8,200
Regular retirees:						
Retiree only	14,999	11,377	5,394	5,776	9,605	5,669
Retiree & spouse	21,165	18,322	8,850	9,008	12,315	8,680
Retiree, spouse, & children	26,884	24,588	10,859	12,181	16,025	13,025
Retiree & children	26,529	22,990	9,694	11,188	16,835	14,188

Table 23 shows: The median social security income ($4,754) accounts for 42 percent of the median total first year income ($11,450) of all retirees. The median first year income of regular retirees with a spouse and children who also received benefits was $24,588. Their median family income was about 50 percent higher than that of early retirees with a spouse and children.

Notes: 1. Children benefits include student benefits, which are scheduled for significant curtailment by 1985.

2. See note 2, Table 19.

a/See note a, Table 19.

b/Includes retiree families who reported no other income.

Newly Retired Workers (65 and older)
Average Annual Benefits and Poverty Level

Year	Retired Workers Annual Benefits	Poverty Level Unrelated Individuals	(1)÷(2)=	Retired Workers and Spouse Annual Benefits	Poverty Level Head of Household	(4)÷(5)=
1959	$1,001.76	$1,397	.72	$1,502.64	$1,761	.85
1960	1,006.44	1,418	.71	1,509.66	1,788	.84
1961	977.97	1,433	.68	1,466.95	1,808	.81
1962	1,005.96	1,451	.69	1,508.94	1,828	.83
1963*	1,033.08	1,470	.70	1,549.62	1,850	.84
1964	1,051.32	1,488	.71	1,576.98	1,875	.84
1965	1,106.00	1,512	.73	1,659.00	1,906	.87
1966	1,206.84	1,565	.77	1,810.26	1,970	.92
1967	1,159.44	1,600	.72	1,739.16	2,017	.86
1968	1,311.44	1,667	.79	1,967.16	2,102	.94
1969	1,374.12	1,757	.78	2,061.18	2,215	.93
1970	1,607.28	1,861	.86	2,410.92	2,348	1.03
1971	1,801.32	1,940	.93	2,701.98	2,448	1.10
1972	1,952.44	2,005	.97	2,928.66	2,530	1.16
1973	2,223.60	2,130	1.04	3,335.40	2,688	1.24
1974	2,465.54	2,364	1.04	3,698.31	2,982	1.24
1975	2,728.71	2,581	1.06	4,093.07	3,257	1.26
1976	2,876.60	2,730	1.05	4,314.90	3,445	1.25
1977	3,285.40	2,906	1.13	4,928.10	3,666	1.34
1978	3,577.50	3,127	1.14	5,366.25	3,944	1.36
1979	4,029.50	3,479	1.16	6,044.25	4,390	1.38
1980	4,543.10	3,950	1.15	6,814.65	4,980	1.37

* Base year.

NEWLY ENTITLED RETIREE FAMILIES'
INVESTMENTS AND TOTAL
ASSETS, BY MEDIAN AMOUNTS AND FAMILY TYPE (note a)

		Investments		Total family assets	
	Percent no response (note b)	Median amount (note c)	Percent reported no investments	Median amount (note c)	Percent reported no assets
All respondents	22.0	$ 7,598.14	11.2	$48,499.06	4.9
Family type					
Early retirees:	21.5	7,581.52	1.1	48,126.45	4.8
Retiree only	20.8	7,565.21	10.5	45,800.00	5.2
Retiree & spouse	28.2	24,897.20	6.8	59,724.42	6.1
Retiree, spouse, & children	20.6	3,580.35	27.1	46,250.02	2.8
Retiree & children	8.8	3,635.41	25.8	44,350.00	6.6
Regular retirees:	26.6	15,028.16	11.9	62,395.59	6.1
Retiree only	13.0	14,967.10	13.2	52,975.01	7.3
Retiree & spouse	8.4	25,076.55	7.1	85,012.93	1.6
Retiree, spouse, & children	18.4	25,020.83	7.5	93,000.00	1.8
Retiree & children	7.5	24,912.50	9.4	78,000.00	2.1

Table 26 shows: For families consisting of a retiree, spouse, and children, the median investment and total assets for early retiree families was $3,580 and $46,250 compared with $25,020 and $93,000 for regular retiree families.

a/Excludes personal residence and automobiles.

b/No response indicates the percentage of questionnaire respondents who failed to provide complete answers to income-related questions.

c/Includes our estimate of what the no response group would have reported had they provided complete answers to income-related questions.

TOTAL SOCIAL SECURITY BENEFICIARIES
(in millions)

1945	1.1	1965	20.2
1950	2.9	1970	25.8
1955	7.6	1975	31.4
1960	14.3	1980	35.1
		1981	36.0

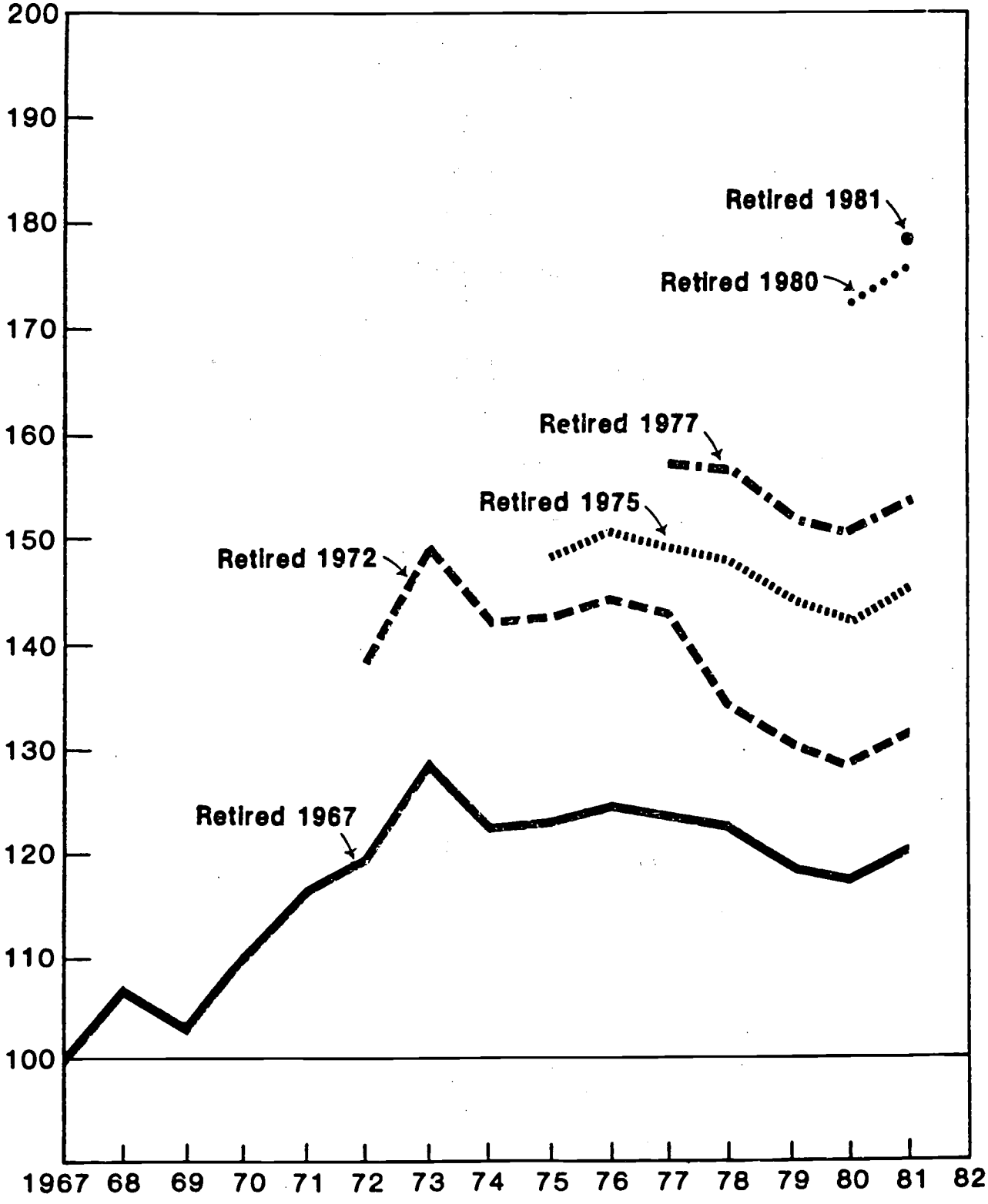
TOTAL SOCIAL SECURITY BENEFICIARIES
AND PAYMENTS, STATE-BY-STATE (1980)*

State	Beneficiaries	Paid	State		
Alabama	.6	$ 2.2	Missouri	.9	$ 3.2
Alaska	.02	.1	Montana	.1	.5
Arizona	.4	1.6	Nebraska	.3	1.0
Arkansas	.4	1.5	Nevada	.1	.4
California	3.2	12.7	New Hampshire	.1	.6
Colorado	.3	1.3	New Jersey	1.2	5.0
Connecticut	.5	2.0	New Mexico	.2	.6
Delaware	.1	.4	New York	2.9	12.1
Dist. of Col.	.1	.3	North Carolina	.9	3.1
Florida	2.0	8.0	North Dakota	.1	.3
Georgia	.8	2.6	Ohio	1.6	6.6
Hawaii	.1	.4	Oklahoma	.5	1.7
Idaho	.1	.5	Oregon	.4	1.7
Illinois	1.6	6.7	Pennsylvania	2.1	8.5
Indiana	.8	3.3	Rhode Island	.2	.7
Iowa	.5	1.9	South Carolina	.4	1.5
Kansas	.4	1.5	South Dakota	.1	.4
Kentucky	.6	2.0	Tennessee	.7	2.5
Louisiana	.6	2.0	Texas	1.8	6.5
Maine	.2	.7	Utah	.1	.6
Maryland	.5	2.0	Vermont	.1	.3
Massachussetts	.9	4.0	Virginia	.7	2.6
Michigan	1.3	5.7	Washington	.6	2.4
Minnesota	.6	2.3	West Virginia	.4	1.3
Mississippi	.4	1.3	Wisconsin	.8	3.0
			Wyoming	.01	.2
			American Samoa	.002	.003
			Guam	.003	.008
			Puerto Rico	.6	1.2
			Virgin Islands	.007	.002
			Abroad	.3	1.0

*beneficiaries in millions, dollars in billions

Growth of Real After-Tax Incomes* of Average Social Security Recipients**

(1967=100)



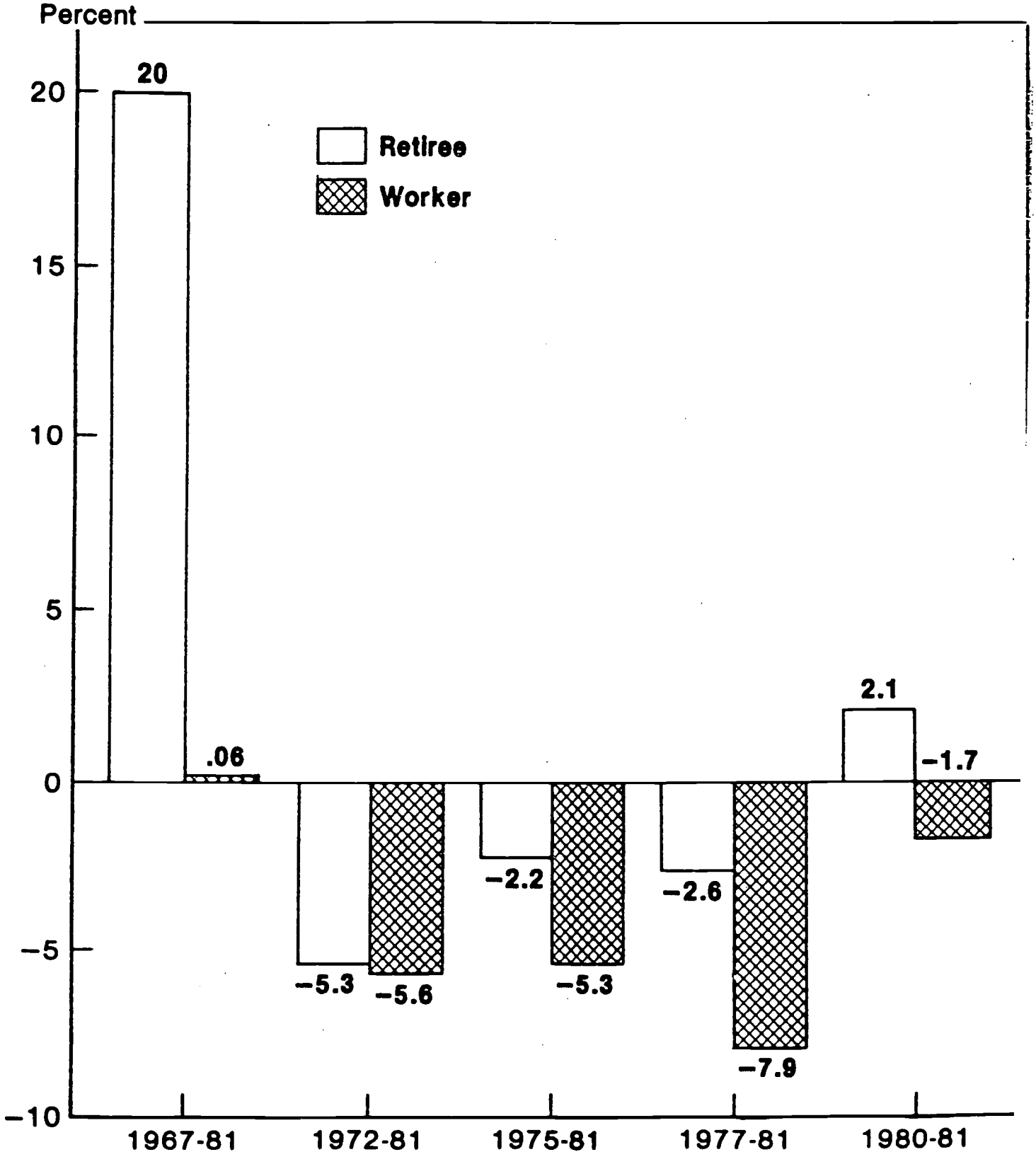
* After-tax incomes deflated by CPI.

** The "Retired" plots reflect the widening spread in benefits for those retired earlier to those retiring in more recent years.

Annual Benefits to "Average" Age 65 Worker
Retiring in Various Years
(in 1967 dollars)

	1967	1972	1975	1977	1980	1981
1967	1477					
1968	1571					
1969	1519					
1970	1631					
1971	1726					
1972	1768	2052				
1973	1902	2208				
1974	1808	2098				
1975	1813	2104	2193			
1976	1837	2132	2222			
1977	1821	2113	2203	2329		
1978	1807	1981	2186	2313		
1979	1756	1925	2132	2247		
1980	1736	1903	2101	2222	2543	
1981	1773	1942	2145	2269	2596	2640
Initial Benefit as a % of Pre-Tax Earnings	29.9	37.7	42.3	44.8	51.1	54.7
1981 Benefit as a % of Pre-Tax Earnings	35.9	32.3	40.1	42.2	53.2	54.7
Initial Benefit as a % of Post-Tax Earnings	35.0	46.0	51.3	52.8	56.4	61.8
1982 Benefit as a % of Post-Tax Earnings	42.0	43.6	50.2	51.5	57.6	61.8

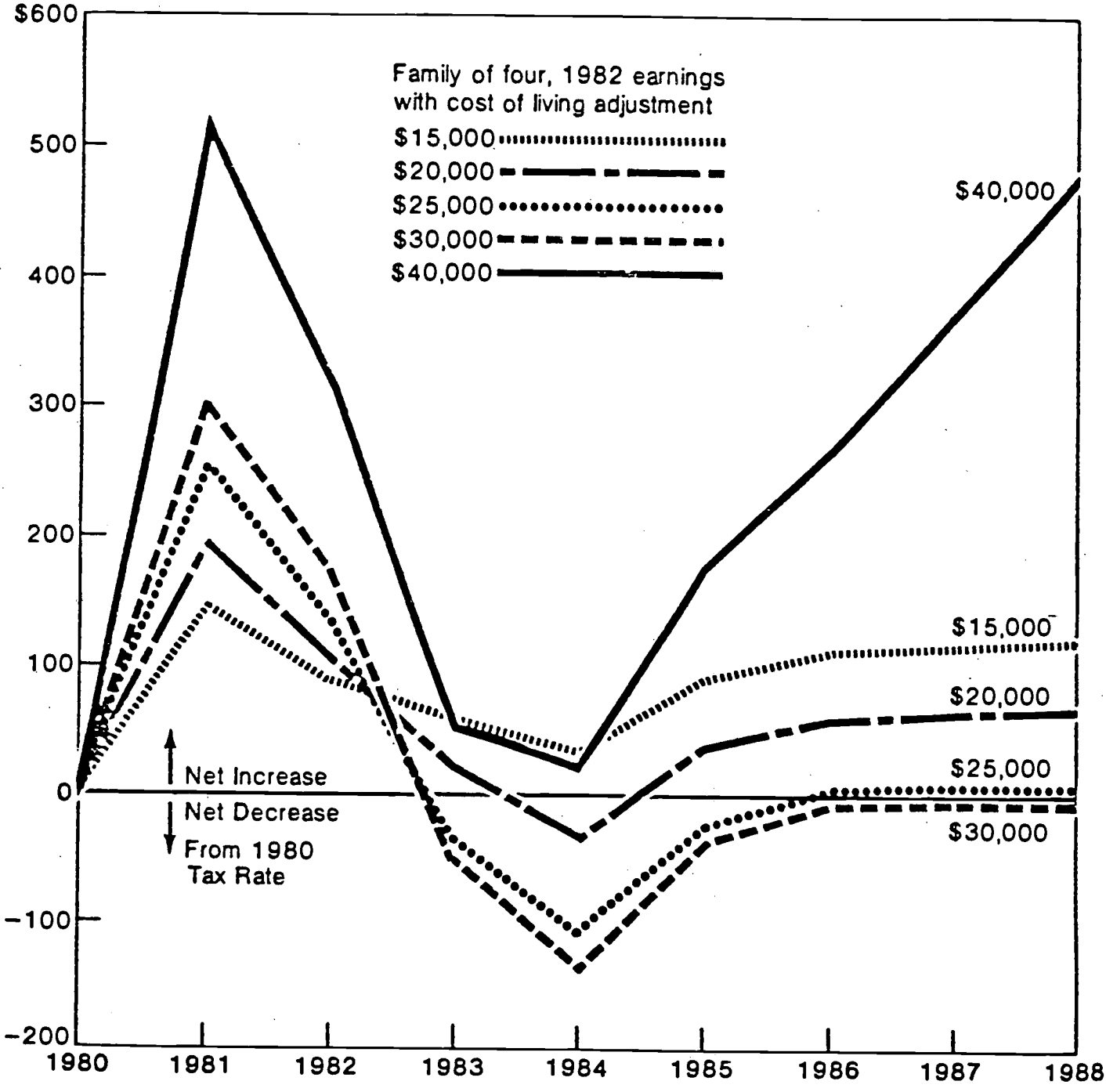
Comparison of the Growth in Average Real After-tax Earnings and Social Security Benefits Over Selected Time Periods



Current Law

Net Tax Changes

Bracket Creep Plus Payroll Tax Increase *
Less Tax Cut Under ERTA



*Current Law

May 17, 1982-A163

Major Legislative Changes in Social Security

1935: A system of Federal old age benefits covering workers in commerce and industry is established. Benefits were to be based on cumulative wages and to be payable beginning in 1942 to qualified workers age 65 and over. A payroll tax of 1 percent on employer and employees, each imposed on a wage base of $3,000, was to be collected as of January 1937; the tax would rise to 3 percent by 1949.

1939: The starting date for benefits is advanced to 1940. Benefits for dependents of retired workers and for surviving dependents in case of a worker's death are authorized.

1952: Benefits are increased by 12.5 percent.

1954: Coverage is almost universal except for Federal government employees. The wage base is increased to $4,200, and benefits are increased by 13 percent.

1956: Disability insurance (DI) benefits are added payable at age 50. Women are permitted to retire at age 62 with actuarially reduced benefits.

1958: Benefits are added for dependents of DI recipients, and the DI eligibility standard is liberalized.

1960: The age 50 limitation for DI elibility is eliminated.

1961: Men may retire at age 62 with an actuarial reduction.

1965: Medicare becomes part of social security. Cash benefits are increased by 7 percent.

1968: Cash benefits are increased by 13 percent. The tax rate is now 4.4 percent and the wage base $7,800.

1969: Cash benefits increased by 15 percent.

1972: Cash benefit increases, which had previously been made in an ad hoc fashion by the Congress, were made automatic as was the increase in the wage base. The 20 percent benefit increase which occurred this year was made possible by a change in actuarial assumptions from a level wage growth path to a dynamic one.

1977: An error in the 1972 automatic indexing at initial benefit determination produced a long-run deficit due to the high rates of inflation between 1972 and 1977. This error was corrected and the current method of wage-indexing both the earnings history and the bend points was decided upon. Automatic cost-of-living adjustments remained intact. The long-run deficit necessitated the largest increase in scheduled tax rates in the system's history, culminating at 7.65 percent on employee and employer in 1990.

1981: A short-run financing problem requires interfund borrowing and some benefit reductions near-term. The long-term actuarial and economic problems are worse. Even the large pending tax increases are inadequate to cover the large increases in real benefits being promised over time under OASDI. The system's grand promises are depressing the Nation's saving and growth rates, jeopardizing its own tax base. There is a burgeoning long-run deficit under HI which dwarfs the OASDI problem. Some politically acceptable alteration in benefit formulas must be found for the long run. This will inevitably involve indexing changes.

Source: Derthick, Martha, Policymaking for Social Security, The Brookings Institution, 1979, pp. 429-432.

SUPPLEMENTARY STATEMENT BY MARY FALVEY FULLER

Working Toward Meaningful Social Security Reform

After a year's work, the National Commission on Social Security Reform, together with the White House and the Speaker, have produced a package with the potential to be passed into law within the next few months. The overriding objective of our recent negotiations was to produce a package that would generate enough support to be enacted by the Congress in time to prevent either delay of benefit checks in July of this year or an emergency infusion of general revenues. As a result, the compromise includes elements that are distasteful to many Commissioners for different reasons.

In my view, the package contains two major provisions that are commendable:

1. Extension of coverage to new Federal employees and all employees of nonprofit organizations, so that Social Security becomes closer to a universal-coverage system.

2. Shift in the COLA to wages or prices or lesser after 1988 if the trust fund ratio falls below 20%. Although this stabilizer of outgo relative to income is effective only in times of real wage loss, it is a step in regulating the COLA to reflect economic conditions.

However, there are a number of additional provisions that I believe are necessary for meaningful reform that we should work for vigorously in the months and years ahead, specifically:

1. A clear commitment to increase the retirement age to reflect the increased longevity of the American population. The increased life expectancy of beneficiaries, coupled with the declining birthrate, means that we will have only two workers supporting each beneficiary in 2025 and after, in contrast to the 16 we had in 1950.

2. A combination of COLA stabilizer and fail-safe mechanism to guarantee that crises like the one we face now, and the one we had in 1977, will not recur before the end of the decade and in the future.

3. A balance between tax increases and benefit restraints that is realistic and fair over the long term. This package relies on new sources of revenue and tax increases for about $100 billion of the gap of $168 billion, and the tax increases come on top of $300 billion enacted in 1977 that apply to the 1983-89 period. Relatively little has been accomplished to date in restraining the growth of benefits over the long term.

4. Reliance on the payroll tax as the sole source of financing. This is essential to preserve the discipline in managing the growth of benefits relative to taxes, the parity between the employer and employee contributions, and the earned-right character of the program.

The remainder of this statement discusses each of these areas.

Clear Commitment to Increase the Retirement Age

The bi-partisan package leaves open a gap of .58% of payroll as part of the total long-term gap of 1.80%. The package stipulates that the gap would be filled by either a gradual increase in the normal retirement age or a combination of other measures. I support the proposal to fill the entire gap through a gradual increase in the normal retirement age. In fact, I believe that this measure, while adequate based on the economic projections used in costing out the package, may fall short of what will actually be needed. Furthermore, the age of 66 in 2015 is about 5 years below the age at which a person would work the same portion of his/her life as that determined by using age 65 when it was enacted in 1935. Consequently, I believe that the increase in the normal retirement age should be adjusted at some later time so as to reach age 68 by 2015. This would produce long-range savings of 1.3% of payroll.

There is a growing belief that this will be needed to fill a long-term gap of 2.4% of payroll, which results from the latest projections of fertility rates by the Bureau of Census.

The Congress and the public may not be aware that actual economic performance has, in recent years, consistently fallen short of the most pessimistic economic projections made in the annual reports of the Board of Trustees. It would be responsible, forward-thinking policy to provide for this gap soon -- especially since a retirement age of 68 is what the many research studies have shown to be appropriate by the year 2015 to reflect longevity at that time -- even allowing for some growth in the proportion of life spent in retirement. One could then delay the indexing schedule to begin after 2020 if the trust funds show a substantial surplus. This would be fairer to the working population than allowing another crisis to loom before taking needed action.

Combination of COLA Stabilizer and Fail-Safe Mechanism

The bi-partisan package includes a provision that would substitute the lesser of the percentage wage increase or the percentage price increase, beginning with 1988 if the combined OASDI trust fund ratio falls below 20%. While this is a positive step, it is possible that action will be needed before 1988 to avoid another funding crisis. Several Commissioners had proposed putting a cap on the COLA between 1984 and 1988 or basing the COLA on wage

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increases minus 1½ percentage points. The latter method would make the adjustment independent of the CPI and yet produce exactly the same benefit increases over the long-term, (after the 1980s) as under present law, if economic conditions are the same as those assumed under the intermediate assumptions of the 1982 Trustees Report. On the other hand, if economic conditions are unfavorable, and wages do not exceed prices by as much as is projected, the financial solvency of the program would be protected, because benefit increases would be smaller than under present law. Conversely, if economic conditions are more favorable than assumed, benefit increases would be larger than under present law, and the financial condition of the system would still be strong.

If another funding crisis develops before 1988, we will be faced with further tax increases -- on top of those enacted in 1977 and those that are proposed in the "consensus" package -- or another COLA delay. I hope that this does not occur, because our credibility in controlling the financial condition of the Social Security program would be damaged in the eyes of the American people. However, based on recent experience with actual economic conditions versus projections, we cannot rule this out.

Several of us also recommended a fail-safe mechanism to ensure that benefits would continue to be paid on time despite unexpectedly adverse conditions, which can occur with little advance notice. One mechanism would be

to reduce, temporarily, benefits payable. Alternatively the same result could be accomplished indirectly by reducing the next benefit increase that would occur as a result of the COLA. Another mechanism could be to increase, temporarily, the OASDI tax rates. Because of the already large tax burden on today's workers, I would favor the first or second alternative. I recognize that Congress is more likely to respond to actual, rather than potential crisis, but I am concerned about further damaging public confidence in the Social Security program by frequent short-term threats.

Balance Between Tax Increases and Benefit Restraints

The current estimated short-term gap of $150 to $200 billion for 1983-89 comes on top of a tax increase in 1977 that amounts to about $300 billion during this period. The bi-partisan package contains new sources of revenue and tax increases of about $100 to $130 billion depending on whether the taxing of benefits is classified as a tax increase or a benefit reduction. In any case, this means that at least $400 billion in new revenues and tax increases will have been enacted in 1977 and after to close a gap of $500 billion. This is, in my view, an unbalanced reliance on taxes, which places an excessive burden on today's working population, while holding retirees relatively harmless. There is a limit to the psychological as well as financial capacity of the working population to absorb continued tax increases. This is especially true during times when they are asked to accept wage increases that do not keep up with inflation.

The clear preference for tax increases rather than benefit restraints has been shown by the actions taken over the last decade. This is one of the major reasons that young people are afraid that the Social Security program will not be around to support them when they retire. The public may be beginning to realize that our overall budget deficit of about $200 billion is, essentially, a commitment on the part of the next generation to pay increased income taxes. The combined effects of increases in Social Security taxes, income taxes and, inevitably, Hospital Insurance taxes appears formidable, to say the least, and unfair when certain groups of people are partially exempt.

Reliance on Payroll Tax to Finance Social Security Program

The Social Security system has been based on the philosophy that benefits are financed by payroll taxes, paid equally by employers and employees. The bi-partisan package contains a refundable income tax credit for 1984 that would offset the payroll-tax increase. This is a direct violation of this fundamental principle; it upsets the parity between employer and employee contributions and infuses general revenues into the Social Security program. It should not be repeated under any circumstances. In my view, it is essential to maintain the self-financed character of the Social Security program -- both to maintain discipline in managing the system and to protect its status as an earned-right, rather than a welfare program. The self-financed character of the system is essential to prevent moving to a system that conditions benefits based on

financial need. Furthermore, to inject general revenues at a time when we have the highest budget deficits in American history, it is very unfortunate and should not be repeated in any form. Americans value the Social Security system as a contributory program, and this is essential to the long-term health of the system.

* * * * * *

It has been a privilege to serve on this Commission and, though many of us have had to swallow hard, some constructive steps have been taken. I am hopeful that some meaningful reforms will emerge from the up-coming deliberations in the Congress.

SUPPLEMENTARY STATEMENT BY MARY FALVEY FULLER

Addressing the Changing Role of Women

The effect on women of the Social Security program is a subject of major importance, and much analytical work has been done to identify and evaluate alternative approaches to correct the unintended inequities. In fact, the 1979 Advisory Council on Social Security spent more time on this issue than on any other single issue. Unfortunately, our commission could not address this issue due to the urgent priority of restoring the solvency of the system. But we do not intend this choice to detract from the importance of restoring the equitable treatment of women in today's world. The provisions of the bi-partisan package, while advantageous to certain groups of women, do not begin to address the fundamental, though unintended, inequities, that act to the disadvantage of all people except members of intact one-earner couples.

The Social Security system was designed at a time when most families each had one wage earner with a dependent spouse, and marriages were, for the most part, lifelong. As a result, the benefits of the dependent spouse are determined as a function of the earnings of the worker, and divorced spouses do not receive any benefits unless the marriage has lasted for more than arbitrary

number of years (which is now 10). Today, the times are different; a substantial majority of women spend most of their lives in the paid workforce, and there is one divorce for every two marriages, with two-thirds of divorces occurring after less than 10 years. The Social Security program, therefore, has some unintended inequities that need to be corrected:

1. The secondary earner, in most cases the woman, gets little, if any, return on her Social Security taxes. Only if she earns more than one-third of the combined couple's income do her benefits as a worker exceed those she would receive as a dependent spouse.

2. Two-earner couples receive less in benefits than one-earner couples with the same earnings. Survivors of two-earner couples are, correspondingly, penalized.

3. Single retirees receive lower benefits relative to their tax contributions then married couples.

4. The spouse receives no benefits on divorce unless the marriage lasted 10 years or more.

These inequities result from the continued use of the concept of a dependent spouse which is, in today's world, an anachronism. Marriage today is

an economic partnership, and each partner contributes to the well-being of the family. The most direct method of restoring the proper treatment of both spouses is through a program of earnings sharing, where each spouse receives credit for one-half of the combined earnings of the couple during the life of the marriage. In this way, each spouse receives credit for her/his contribution to the marriage year-by-year with no requirement based on duration of the marriage. The conceptual precedent is community property, which prevails in several states.

Such a program would need to be tailored to special circumstances, such as protecting the family in the event of loss of the primary earner's income through disability. Moreover, the transition would need to be orderly and fair, which is not to say, protracted and expensive. However, there is in my view, no need to hold harmless groups (like divorced men) whose total benefits may have been high relative to their contributions. There is also no need for increased costs except for the transition. The earnings-sharing program developed for evaluation by the 1979 Advisory Council had an increased cost of .09% of payroll -- excluding the cost of adding disability protection for certain groups, primarily homemakers. I do not believe that the evaluation of earnings sharing should be complicated by adding benefits that do not exist today. Responsibility for supporting homemakers during retirement and disability is a separate subject with different arguments, which are based on different issues.

The fact that transition to such a program will be complex to design and implement should not prevent this much-needed change. Work on the program should begin now so that the details can be worked out and communicated well in advance. Implementation should begin as soon as the system is in a position to support the cost of transition -- hopefully by 1990. Change is natural in a healthy society, and effort is better spent implementing orderly change than trying to force-fit elements of the status quo that have outlived their relevance.

Supplementary Statement on Mandatory Coverage
of Public Employees by Lane Kirkland

I cannot support the Commission's recommendation for mandatory social security coverage of newly hired federal and postal employees. The many complex issues involved make it difficult to protect federal and postal employee rights under the best of circumstances. This is even more difficult at the present time since the proposal is being put forward in the context of a search for additional sources of revenue and Congress is not likely to decide the issue solely on its own merits.

I could not support coverage unless all of the following conditions were met:

1. No reduction in the level of pension benefits now available to government workers.
2. No additional financial burden on government employees without a commensurate adjustment in benefits.
3. Preservation of the identity for government workers' retirement plans.
4. No diminution in the opportunity for these employees to improve their retirement systems.

The Commission cannot know in advance whether the pension rights of present and future employees will be adequately protected if Congress enacts mandatory coverage. Federal and postal employees should have the right to know and evaluate in advance the details of any proposal before they are asked to take this step.

Discussions are going forward to try to develop a solution to this problem which will strengthen and reinforce both the Social Security System and the Civil Service Retirement System. Those discussions ought not to be hampered by untimely and imprecise recommendations of this Commission. The Commission should not recommend nor should the Congress act when the coverage details are unknown. Otherwise, there can be no assurance that they meet criteria essential for assuring equity to those affected.

A majority of the Commission supports in principle social security coverage of state and local government employees but has not so recommended because of concern about constitutional barriers. The implication is that Congress should mandatorily cover these employees if the constitutional issues can be resolved. I will not support such coverage unless the protections previously specified for federal employees are met by any legislation applicable to State and local government employees.

I support legislation that would remove the option for State and local governments and nonprofit organizations to withdraw from social security once they have elected for coverage. The unilateral right of these employers to withdraw has resulted in their employees losing valuable retirement, survivor and disability protections. This "loophole" in the law should be eliminated. Once this has been accomplished, public employers that have withdrawn in the past should be permitted to reenter the system. The legislation should specify a way for workers or their unions to initiate such action. This is not possible under present law.

Proponents of coverage will contend that twenty billion dollars will be lost between now and 1990 to social security trust funds if coverage of federal and postal employees does not take place. As a substitute source of revenue and as a meritorious proposal in its own right, I recommend requiring employers

to contribute to social security on the basis of their total payrolls. This would bring into the system about $40 billion between now and 1990 and would reduce social security's long run deficit by .56% of taxable payroll.

The wage base is necessary to determine the maximum employee benefit but plays no similar role for the employer. Employers' responsibility for the welfare of their employees should be based on their total payrolls, not just on a portion of workers' earnings. Employees must pay federal income tax on their social security contributions. Employers do not pay the full rate since they deduct their tax as a business expense.

This give-back to employers in reduced income taxes is largely financed by the income taxes of workers since federal revenues to an overwhelmingly degree are based on taxes provided by individuals' incomes. Individual income taxes now provide 71 percent of general revenues, up from 47.5 percent in 1954. The corporate share is expected to be only 11 percent of general revenues for 1982. In 1954, corporation income taxes supplied 34 percent of all revenues (excluding employment taxes). As a result, employers pay only about one-third of the combined costs of the program and employees two-thirds. Thus, there is every reason why employers should pay social security taxes on their total payrolls.

Dissenting Views of Joe D. Waggonner, Jr.

It has been a privilege and an honor to serve on the National Commission on Social Security Reform. Our country needs a sound, adequately financed Social Security program. I thank the President for the opportunity to serve.

I strongly support the Social Security program and recognize its critical role in providing income security. The program has been extremely successful and must be preserved for this generation as well as future generations.

I am in complete agreement with the initial finding of the Commission, that the fundamental structure of the Social Security program has proven to be sound and should not be altered.

Since its inception nearly a half a century ago, the program has been maintained on a self-financing, contributory basis. With a few limited exceptions (i.e., gratuitous military wage credits and special benefits for certain uninsured persons age 72 and over) the program has been financed exclusively by taxes paid by workers and employers.

The self-financing principle has served a dual purpose. It has helped to protect the program -- although it has not completely guaranteed it -- against unwarranted and ill-considered over-expansion. At the same time, the "earned

right" concept inherent in a self-financed program has helped to protect it -- although it has not completely guaranteed it -- from gradual conversion to a needs-tested welfare program. Therefore, the public should rest assured that there is strong support for the program. Neither party wants to see the system fail. Consequently, I believe that the program is too important to be subjected to politics. It is now, and in fact long since, time to cease the political rhetoric and enact legislation that responsibly solves both the short-term and long-term financing problems. The longer such action is delayed, the more severe the consequences of such inaction.

There are a variety of reasonable solutions to the financing problems of the system. Those solutions do not have the dire consequences that people fear as a result of the emotional rhetoric. It is unnecessary to reduce benefits currently being paid or to make precipitous changes in the future growth of benefits. However, the future growth of benefits must be slowed. Revolutionary or radical changes are not desirable. Similarly, there is no need for massive tax increases or for the use of non-existent general-revenue financing.

It is critical that the solutions to the problems address the causes of the short-term and long-range problems. The immediate cause of the short-term problem is a technical deficiency in the cost-of-living adjustment that causes the program to be unstable. It absolutely must be changed if a stable system is to survive. The long-term problem is essentially the product of demographic changes. The "baby boom" generation and continuing improvements in life

expectancy will overwhelm the program unless changes are made. Demographics in the long-range demand structural changes. Demographics is the long-term problem.

I am greatly concerned that proposals have been made that do not adequately address those causes. A brief background on the growth of the Social Security program and further explanation of the causes is warranted.

Disability and Medicare benefits have been added since monthly benefit payments started in 1940, coverage has been expanded, the level of benefits has grown, and the tax liabilities of workers and employers have increased. Fundamentals for financing and redistribution of benefits have changed very little. The combined maturing of the program and the growth of real benefits brought on by the runaway inflation of the 1970s, have raised the increased tax burden. In 1950, only 20% of people above age 65 received Social Security benefits. Today, more than 90% do. The average retired worker benefit has increased from $70 a month in 1960 to about $420 a month today.

It was unquestionably intended that Social Security benefits provide a basic floor of protection to be supplemented by other retirement income when Social Security was enacted. Other retirement income was available then and continues to increase. Too often, older Americans are portrayed as being totally dependent on Social Security benefits for retirement income. Those who paint the economic picture of the elderly often overlook certain truths. In

past years, the relative value of other sources of income has significantly increased. Among these sources are (1) pension programs, which have increased from some 750 plans (private) in 1935 to some 700,000 plans today; (2) the Keogh program for the self-employed recently was enlarged to encourage savings; (3) Individual Retirement Accounts have been liberalized and will encourage a more responsible attitude for retirement planning among employed workers; (4) CODAs, which are cash or deferred arrangements are allowed by changes to the tax code in 1978 which provide that workers can now establish cash or deferred arrangements under qualified profit sharing or stock bonus plans; (5) in addition, some 70% of the elderly couples own their homes at retirement and some 80% of those have no mortgage; (6) many have accumulated a significant amount of wealth at retirement; (7) some continue to work after age 65; and (8) programs with means-test eligibility criteria for the elderly such as the Supplemental Security Income program, housing, food stamps, Medicaid, and energy assistance provide additional protections for low-income elderly persons.

Just since 1968, cumulative Social Security benefit increases have totaled 270%, compared with a CPI increase over that same period of 189%. The proportion of before-tax income replaced by Social Security benefits has increased steadily over this same 15-year period. A male aged 65 with average covered earnings who retired in January 1968 had 32.3% of his before-tax earnings replaced by Social Security; in January 1983 a similar individual will have 45.7% of his before-tax earnings replaced.

As Social Security benefits and replacement rates have been steadily increasing, the Federal Government has essentially placed itself in direct competition with the private sector in the providing of retirement income security.

As indicated previously, the method by which benefits are adjusted for inflation permits benefits to increase more rapidly at times than the wages of those paying taxes to support those benefits. As a result, benefits can grow more rapidly than taxes, causing the program to be unstable when economic conditions are adverse.

For example, in the past four years, CPI-indexed benefits grew by 50%, while average wages grew by only 37%. If benefits had increased at the same rate as wages, the program would be generating excesses of income over outgo and there would be no short-term problems.

The Social Security program as presently structured is widely accepted by the American people, although their confidence in its financing basis has been unnecessarily shaken. The present financial difficulty is real, arguments to the contrary notwithstanding, but emotion has overwhelmed reason. This Commission is obligated to the President and the American people to recommend a plan whose policy or policies would assure an on-going program for the benefit of this Nation, our present and future generations. What are our options? Basically only four exist. They are:

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(1) Increase or accelerate already scheduled tax increases. Surely, past experience has demonstrated and proved the futility of such a policy. The last major Social Security refinancing legislation, enacted in 1977, is a good example. At that time, Congress and the Administration attempted to solve Social Security's financing problems by the enactment of the largest peace-time tax increases in U.S. history. In spite of this tremendous tax increase, because subsequent economic conditions were far worse than those assumed in the formulation of the legislation, the solution failed. This recent experience must not be reenacted. Because forecasting future economic conditions is, at best, an imprecise science, extreme caution must be taken when considering current reform proposals to err on the side of caution -- to avoid simply another short term fix.

Four tax rate changes have already gone into effect since 1977. Three more are scheduled to go into effect during the next several years, and large increases in the maximum earnings subject to taxes are also scheduled. Because of the 1977 legislation, wage earners and their employers will pay an additional $299 billion in taxes during the period 1983 through 1989. That does not include the huge tax increases scheduled to begin in 1990.

Since 1977, maximum annual taxes paid by an individual have increased from $965 to $2,392, an increase of almost 150%. In fact, since 1949, maximum taxes have increased by 7900%.

I am strongly opposed to a solution that depends to a large extent on tax increases, which increase the cost of labor at a time when we should be concerned about creating jobs. A further tax on labor will only serve to significantly increase unemployment, as forecast by several econometric studies. Such action would weaken some of our major industries struggling for survival in the face of stiff foreign competition, as well as many small companies struggling to avoid bankruptcy. Furthermore, despite the adverse effect on unemployment, large payroll tax increases would be inflationary because some companies would be able to pass along the higher labor costs to consumers. Alternatively, further tax increases will tend to depress wage growth.

While decoupling provisions of the 1977 legislation cut the long-term deficit by about 80 percent, its short-term financing provisions relied primarily on tax increases rather than on reductions in costs. Thus, legislation which was heralded as guaranteeing the financial soundness of the program well into the second decade of the next century has proven inadequate in less than five years. <u>You simply can't raise enough money by taxation to satisfy people's wants</u>. <u>We have long since exceeded our ability to pay for all that people want from government</u>.

(2) <u>Provide general Treasury direct or indirect financing to meet the program needs</u>.

This approach is totally unrealistic in the light of today's circumstances. Even with the budget growth cuts that have been painfully enacted in the last two years, there is now no end in sight for annual Federal budget deficits in the neighborhood of $200 billion. Under these conditions, introducing general revenues into the financing of the Social Security program would require the program to compete with all of the other demands for the general funds of the Treasury. It would be disastrous on the economy. Financial stability of the Social Security program depends on a healthy economy. The "earned right" concept would be abandoned, and almost overnight the program would take on all the aspects of a welfare program. It would in fact become a "guaranteed annual income" from the government such as the already rejected "Family Assistance Plan". I strongly oppose this.

(3) Combine additional taxes through the system or Treasury financing A mix of unrelated taxes such as excise taxes would simply employ the use of concepts which would work to undermine the earned-right concept so central to Social Security. I strongly oppose this.

(4) Tailor benefits to revenues. This is the only reasonable course. In fact this Commission and this policy may have been our last chance to preserve the Social Security program as it was intended and should be. There will be no return to reason, stability and solvency, you just don't go back. We must tailor benefits to revenues.

The elderly are fair and responsible. They don't want to see their children and grandchildren, whose wages have not been keeping pace with inflation and who face high levels of unemployment, burdened with large tax increases. However, they are also very concerned about drastic cuts in benefits because of all the political rhetoric. When the problems and solutions are presented to them objectively and unemotionally, most agree to balanced solutions that address the causes of the problems.

The demographic problems are well-documented. The "baby boom" represents a tidal wave of future beneficiaries. Their benefits will be paid for by the relatively small "baby bust" generation that results from the dramatic reduction in birth rates since 1970. Substantial improvements in mortality compound the problems because benefits will have to be paid over longer periods of time.

Once the baby boom generation retires, "best estimate" projections predict there will be only two workers supporting each beneficiary. If the Office of the Actuary modifies those "best estimate" assumptions to reflect continuation of current birth rates, as has been done by the Census Bureau in its most recent population forecast even fewer workers will be expected to support each beneficiary.

While this Commission has not addressed the financing problems facing Medicare, I recommend that the policy implications of Medicare be reflected in OASDI legislation. The long-term deficit for the Hospital Insurance portion of

Medicare is almost three times as large as the OASDI deficit. It is 5.21% of payroll. That deficit occurs despite massive cost shifts and despite assumptions that predict that health care costs will ultimately be controlled.

I recommend that it is imperative that long-term changes be enacted now for several reasons. First, the confidence of young workers must be restored. The best way to accomplish this is to make realistic and affordable benefit promises. Second, those who are to be affected must be given adequate advance notice for personal and financial planning, and the changes should be gradual. If action is delayed, the changes may have to be precipitous. Third, the Hospital Insurance program will begin to experience large deficits by the end of the decade and proper OASDI changes can help mitigate the effect of those deficits.

The Social Security program is an intergenerational transfer program. As such, parents have to ask the question, "At what age should they expect their children to support them and what level of income should their children transfer to them?"

With all of this as background, I believe that the legislation should meet certain reasonable and specific tests and/or constraints as follows:

1. All changes in their totality should be perceived to be fair to everyone affected by Social Security -- taxpayers and beneficiaries alike.

2. All changes should have the objective of placing the Social Security program on a sound financial basis for the short-term and long-term. Those changes should not have the objective of balancing the budget, but rather of preserving the solvency of the Social Security program. Conversely, those changes should not increase the enormous budget deficits of other government programs. The objective should be to consistently maintain the trust funds in total at a reasonable level through the years.

3. Changes should not be precipitous -- gradual changes can and should be made so as to allow adequate time for planning.

4. Changes need not and should not reduce benefits of those now receiving benefits.

5. Recommended changes to improve the viability of the Social Security program and to restore public confidence in the system must respond to the causes of both the short and long-term problems:

   - There is a technical deficiency in the cost-of-living adjustment that permits benefit increases to grow faster than wage increases.

- The "baby boom" generation is not replacing itself. It is responsible for the "baby bust".

- People are living longer.

- The ratio of taxpayers to beneficiaries will decrease.

- Health care costs continue to increase rapidly.

6. Future tax rates for the entire Social Security program, including Hospital Insurance, should be reasonable and affordable.

7. Should not (a) increase already scheduled tax increases; (b) provide General Treasury, direct or indirect, financing to meet the program needs; (c) funnel unrelated additional taxes through the system.

Recommendations approved by the National Commission on Social Security Reform show progress toward closing the gap between projected revenues and outlays in the OASDI system. The efforts which produced this package of proposals also reflects credit on those who took part in extended negotiations, including representatives of the President and the Speaker of the House.

Unfortunately, however, in its present form, the bi-partisan plan falls far short of fulfilling the mandate of our Executive Order insofar as it does not specifically address or assure the long-term solvency of the Social Security system. It is also deficient as a balanced solution which is necessary to restore public confidence in the solvency and fairness of the Social Security program.

Specific elements of the plan that I find unacceptable are:

1. The granting of a temporary refundable income tax credit to employees for the differential between the proposed payroll tax rate and the already scheduled payroll tax rate establishes a precedent for permanent General Treasury financing of the program. It moves us closer to the establishment of a guaranteed-annual-income policy by putting the government in support of a refundable tax credit for the first time and it upsets the historic parity of taxes between employers and employees. The matter of providing a refundable tax credit is a major tax policy consideration. It should not be resolved as a Social Security matter in isolation from the Tax Code.

2. Taxing Social Security benefits establishes a means test on benefits, effecting a penalty upon those who are prudent in saving and investing for their retirement. Future program financing difficulties or

efforts to further enhance the regressive redistribution of benefits will exert pressure to retain the fixed thresholds of $20,000/$25,000 which will result in the taxing of a greater proportion of beneficiaries in the future. In effect, certain people will never quit paying into the system. Future retirees, especially those of the baby-boom generation and beyond will receive far less of a return on the taxes they they will have paid while working. Also, major "notches" will develop as a result of this recommendation.

The matter of taxing Social Security benefits is a major tax policy consideration, as is, for example, taxing unemployment compensation, and should not be considered in isolation of the Tax Code.

3. The short-range deficit is met only at the low end of the projected need. There is no adequate margin of safety provided through the end of this decade, particularly in the years prior to 1988. Unless economic conditions are much better than expected over the next few years, we could once again be in a situation of having inadequate revenue to pay checks on time. In fact, I believe the short-range deficit is far more serious and the projected need is inadequate.

4. Over the period 1983-84 over one-half of the new revenue comes directly from the General Treasury. The large infusion of general revenues for the first time into the system assures that it will never

again be self-sustaining. General funds should never be used. To combine Treasury revenues and a refundable tax credit will complete the transition of the program to welfare and once done, will not be changed. The hope of the young is diminished.

5.) The plan adds to projected budget deficits by permanently increasing the cost of the Supplemental Security Income program at a time of severe overall budgetary concerns. This is a welfare consideration.

6.) Major necessary structural long-term reforms are entirely avoided. There is no specific plan by which the long-term cost is met. Demographic changes which are the primary cause of the long-term problem are not adequately addressed. The proposed change in the retirement age is tragically deficient.

7.) Adding to the cost of the program in the long-term through increasing the delayed retirement credit is irresponsible inasmuch as the long-term cost reduction goal is not specifically met.

8.) It repeats the mistake of the 1977 Amendments by relying primarily on increasing taxes. Including revenue derived from expanded coverage, increased taxes account for 75% of deficit reductions; (63% if expanded coverage is excluded);

In the long-term, excluding the portion left unresolved (.58% of taxable payroll) and including revenues from expanded coverage, new taxes account for 91% of deficit reduction (not including revenues from expanded coverage, 66%).

9.) It does not provide a specific fail safe mechanism to assure that benefits could continue to be paid on time despite unexpectedly adverse conditions which occur with little advance notice. (See point #3)

The list of options which I would now like to present do meet the tests and/or constraints previously described in this statement. While these options do address the basic causes of both the short-range and long-term problems they by no means constitute an all inclusive list. It should be noted that the options do not specify a single solution to either the short-range or the long-term problem, but instead, the list provides several examples of changes, that in combination could resolve the problems facing Social Security more fairly and equitably than those in the Commission report. At the same time, these options avoid violating the basic tenents of Social Security, in that they allow the system to remain self-financing and do not introduce any elements of means-testing. (The bi-partisan approach developed in 1981 by Congressmen Barber Conable and Jake Pickle adopted a combined approach.)

Some Alternative Options to the Commission Report

	Short-Term Savings (billions) (1983-89)	Long-Term Savings (% of Payroll) (75 Years)
1. Coverage of new Federal hires and Federal employees with under 5 years of service, all nonprofit employees, and elimination of windfall benefits (also, prohibit opting out)	$33	.31%
2. Suspend COLA adjustment for one year, 1983	80	.13
3. COLA based on CPI minus 2% for next 3 years' COLAs, with cap on COLA of 6%; thereafter, use "wages minus 1½%" basis	80	.15
4. Four percent cap for 3 year's COLAS; thereafter, lesser of wage or CPI increase if fund ratio is under 25% (with catch up when fund ratio is over 50%)	33	.04
5. Provide future benefit increases equal to 75% of the CPI, effective 1983	75	1.45
6. Prorate both CPI and wage increase adjustments in initial OASDI benefit based on month of eligibility, effective 1984.	40	.40
7. Accelerate State and Local deposits	3	--
8. Increase retirement age to 66 in 2002, beginning phase-in in 1995; thereafter, adjust according to changes in longevity.	--	1.68

	Short-Term Savings (billions) (1983-89)	Long-Term Savings (% of payroll) (75 years)
9. Gradually increase the "normal" retirement age from 65 to 68 in 2017 beginning the phase-in with those who attain age 62 in 2000.	--	1.22
10. Increase "bend points" in the PIA benefit formula by 75% of the increase in wages until they are 80% of what they would have been under 100% wage indexing, effective 2000.	--	.80
11. Reduce percentages in PIA benefit formula by 10% relatively, over a 15-year period beginning 1984-98	1	1.10

"Fail-Safe" Mechanism

A "fail-safe" mechanism should be provided in the event that the OASDI trust fund ratio falls below a specified level. In the event of the determination of a fund-ratio-deficiency, all benefits due during the coming year should be guaranteed to be sent out on time, but should be proportionately reduced automatically by first affecting any scheduled COLA increase. In the event that the fund-ratio-deficiency exceeded the scheduled COLA increase, then the existing benefit amounts would be reduced proportionately unless Congress acted to provide for the remaining fund-ratio-deficiency through raising payroll tax rates.

National Commission on Social Security Reform

Executive Order 12335.
December 16, 1981

By the authority vested in me as President by the Constitution of the United States of America, and to establish, in accordance with the provisions of the Federal Advisory Committee Act, as amended (5 U.S.C. App. I), the National Commission on Social Security Reform, it is hereby ordered as follows:

Section 1. Establishment. (a) There is established the National Commission on Social Security Reform. The Commission shall be composed of fifteen members appointed or designated by the President and selected as follows:

(1) Five members selected by the President from among officers or employees of the Executive Branch, private citizens of the United States, or both. Not more than three of the members selected by the President shall be members of the same political party;

(2) Five members selected by the Majority Leader of the Senate from among members of the Senate, private citizens of the United States, or both. Not more than three of the members selected by the Majority Leader shall be members of the same political party;

(3) Five members selected by the Speaker of the House of Representatives from among members of the House, private citizens of the United States, or both. Not more than three of the members selected by the Speaker shall be members of the same political party.

(b) The President shall designate a Chairman from among the members of the Commission.

Sec. 2. Functions. (a) The Commission shall review relevant analyses of the current and long-term financial condition of the Social Security trust funds; indentify problems that may threaten the long-term solvency of such funds; analyze potential solutions to such problems that will both assure the financial integrity of the Social Security System and the provision of appropriate benefits; and provide appropriate recommendations to the Secretary of Health and Human Services, the President, and the Congress.

(b) The Commission shall make its report to the President by December 31, 1982.

Sec. 3. Administration. (a) The heads of Executive agencies shall, to the extent permitted by law, provide the Commission such information as it may require for the purpose of carrying out its functions.

(b) Members of the Commission shall serve without any additional compensation for their work on the Commission. However, members appointed from among private citizens of the United States may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons serving intermittently in the government service (5 U.S.C. 5701–5707), to the extent funds are available therefor.

(c) The Commission shall have a staff headed by an Executive Director. Any expenses of the Commission shall be paid from such funds as may be available to the Secretary of Health and Human Services.

Sec. 4. General. (a) Notwithstanding any other Executive Order, the responsibilities of the President under the Federal Advisory Committee Act, as amended, except that of reporting annually to the Congress, which are applicable to the Commission, shall be performed by the Secretary of Health and Human Services in accordance with the guidelines and procedures established by the Administrator of General Services.

(b) The Commission shall terminate thirty days after submitting its report.

Ronald Reagan

The White House,
December 16, 1981.

[*Filed with the Office of the Federal Register, 2:22 p.m., December 16, 1981*]

National Commission on Social Security Reform

Appointment of the Membership.
December 16, 1981

The President today announced his intention to appoint/designate the following indi-

viduals to serve on a 15-member bipartisan National Commission on Social Security Reform. Alan Greenspan will serve as Chairman.

Establishment of the Commission fulfills a pledge made by the President in September to create a bipartisan task force to work with the President and Congress to reach two specific goals:

—To propose realistic, long-term reforms to put social security back on a sound financial footing, and

—To forge a working, bipartisan consensus so that the necessary reforms can be passed into law.

Robert A. Beck, chairman of the board and chief executive officer, Prudential Insurance Co. of America, Newark, N.J. He is a member of the President's Export Council.

Mary Falvey Fuller, vice president, finance, Shaklee Corp., San Francisco, Calif. Previously she was senior vice president and director, Blyth Eastman Dillon & Co., Inc., New York, N.Y.

Alan Greenspan, chairman and president, Townsend-Greenspan and Co., Inc., New York, N.Y. He is a member of the President's Economic Policy Advisory Board.

Alexander B. Trowbridge, president, National Association of Manufacturers, Washington, D.C. He is a member of the President's Task Force on Private Sector Initiatives.

Joe D. Waggonner, Jr., consultant, Bossier Bank & Trust Co., Plain Dealing, La. He represented the Fourth Congressional District of Louisiana during the 87th to 95th Congresses.

Senate Majority Leader Howard Baker, in consultation with Senate Minority Leader Robert Byrd, selected the following individuals to serve on the Commission:

William Armstrong, United States Senate (R-Colo.), chairman of the Subcommittee on Social Security of the Senate Finance Committee.

Robert Dole, United States Senate (R-Kans.), chairman of the Senate Finance Committee.

John Heinz, United States Senate (R-Pa.), chairman of the Senate Special Committee on Aging.

Lane Kirkland, president of the American Federation of Labor-Congress of Industrial Organizations.

Daniel Patrick Moynihan, United States Senate (D-N.Y.), ranking minority member of the Subcommittee on Social Security of the Senate Finance Committee.

House Speaker Thomas P. O'Neill, in consultation with House Minority Leader Robert Michel, selected the following individuals to serve on the Commission:

William Archer, United States House of Representatives (R-Tex.), ranking minority member of the Subcommittee on Social Security, House Ways and Means Committee.

Robert M. Ball, was Commissioner of Social Security in 1962–73. He is senior scholar, Institute of Medicine, National Academy of Sciences.

Barber Conable, United States House of Representatives (R-N.Y.), ranking minority member, House Ways and Means Committee.

Martha E. Keys, former Assistant Secretary of Health and Human Services. She served in the 94th and 95th Congresses.

Claude D. Pepper, United States House of Representatives (D-Fla.), chairman, House Select Committee on Aging.

Federal Register
Vol. 47, No. 249
Tuesday, December 28, 1982

Presidential Documents

Title 3—

The President

Executive Order 12397 of December 23, 1982

National Commission on Social Security Reform

By the authority vested in me as President by the Constitution and laws of the United States of America, and specifically the Federal Advisory Committee Act, as amended (5 U.S.C. App. I), it is hereby ordered that Section 2(b) of Executive Order No. 12335, establishing the National Commission on Social Security Reform, is hereby amended to provide as follows:

"The Commission shall make its report to the President by January 15, 1983.".

Ronald Reagan

THE WHITE HOUSE,
December 23, 1982.

[FR Doc. 82-35230
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Billing code 3195-01-M

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release January 15, 1983

EXECUTIVE ORDER

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NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

By the authority vested in me as President by the Constitution and laws of the United States of America, and specifically the Federal Advisory Committee Act, as amended (5 U.S.C. App. I), it is hereby ordered that Section 2(b) of Executive Order No. 12335, as amended, establishing the National Commission on Social Security Reform, is hereby further amended to provide as follows:

"The Commission shall make its report to the President by January 20, 1983.".

RONALD REAGAN

THE WHITE HOUSE,

January 15, 1983.

# # # #

Executive Order 12402 (January 15, 1983)

National Commission on Social Security Reform

Remarks Announcing Establishment of the Commission. December 16, 1981

In recent years inflation has created great uncertainty about our social security system. Time and again we've been reassured the system would be financially sound for decades to come, only to find that recalculations of receipts and benefits forecast a new crisis. Current and future retirees now question the system's ability to provide them the benefits they've been led to expect. Americans look to us for leadership and for answers.

As a candidate in 1980 I pledged that I would do my utmost to restore the integrity of social security and do so without penalty to those dependent on that program. I have honored that pledge and will continue to do so. We cannot and we will not betray people entitled to social security benefits.

In September I announced that I would appoint a bipartisan task force to work with the President and the Congress to reach two specific goals: propose realistic, long-term reforms to put social security back on a sound financial footing and forge a working bipartisan consensus so that the necessary reforms will be passed into law.

Senate Majority Leader Baker, Speaker O'Neill, and I agreed we would each select five members for a new national commission on social security. Today I am pleased and honored to announce the formation of the commission and that Alan Greenspan has agreed at my request to serve as Chairman of that commission.

I'm asking the commission to present its report to the American people at the end of next year. I can think of no more important domestic problem requiring resolution than the future of our social security system.

Let me make one thing plain: With bipartisan cooperation and political courage, social security can and will be saved. For too long, too many people dependent on social security have been cruelly frightened by individuals seeking political gain through demagoguery and outright falsehood, and this must stop. The future of social security is much too important to be used as a political football.

Saving social security will require the best efforts of both parties and of both the executive and legislative branches of government. I'm confident this can be done and that in its deliberations this commission will put aside partisan considerations and seek a solution the American people will find fiscally sound and fully equitable.

That's the end of the statement.

Note: The President spoke at 12:03 p.m. to reporters assembled in the Briefing Room at the White House.

Weekly Compilation of Presidential Documents, Monday, December 21, 1981; Volume 17 -- Number 51; Pages 1371-1394

C H A R T E R

National Commission on Social Security Reform

Purpose

The National Commission on Social Security Reform was established by Executive Order No. 12335 on December 16, 1981 to provide appropriate recommendations to the Secretary of Health and Human Services, the President, and the Congress on long-term reforms to put Social Security back on a sound financial footing.

Authority

The National Commission on Social Security Reform was established by Executive Order of the President on December 16, 1981 (Executive Order 12335), and is governed by the provisions of the Federal Advisory Committee Act, (5 U.S.C. App. I; 86 stat. 770) which sets forth standards for the formation and use of advisory committees.

Function

The National Commission on Social Security shall:

(1) review relevant analyses of the current and long-term financial condition of the Social Security trust funds;

(2) identify problems that may threaten the long-term solvency of such funds;

(3) analyze potential solutions to such problems that will both assure the financial integrity of the Social Security System and the provision of appropriate benefits; and

(4) provide appropriate recommendations to the Secretary of Health and Human Services, the President, and the Congress.

Structure

The Commission shall be composed of fifteen members appointed or designated by the President and selected as follows:

(1) Five members selected by the President from among officers or employees of the Executive Branch, private citizens of the United States, or both. Not more than three of the members selected by the President shall be members of the same political party;

(2) Five members selected by the majority leader of the Senate from among members of the Senate, private citizens of the United States, or both. Not more than three of the members selected by the Majority Leader shall be members of the same political party;

(3) Five members selected by the Speaker of the House of Representatives from among members of the House, private citizens of the United States, or both. Not more than three of the members selected by the Speaker shall be members of the same political party.

The President shall designate a Chairman from among the members of The Commission.

The Commission shall have a staff headed by an Executive Director. Any expenses of the Commission shall be paid from such funds as may be available to the Secretary of Health and Human Services.

Notwithstanding any other Executive Order, the responsibilities of the President under the Federal Advisory Committee Act, as amended, except that of reporting annually to the Congress, which are applicable to the Commission, shall be performed by the Secretary of Health and Human Services in accordance with the guidelines and procedures established by the Administrator of General Services.

Meetings

Meetings are held approximately once a month at the call of the Chairman, who approves the agenda. A Government official is present at all meetings.

Meetings are open to the public except as determined otherwise by the Secretary; notice of all meetings is given to the public.

Meetings are conducted and records of the proceedings kept, as required by applicable laws and Department regulations.

Compensation

Members of the Commission shall serve without any additional compensation for their work on the Commission. However, members appointed from among private citizens of the United States may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons serving intermittently in the Government service (5 U.S.C. 5701-5707), to the extent funds are available therefor.

Annual Cost Estimate

Subject to the availability of funds, the estimated cost for operating the Commission, including travel expenses for members, but excluding staff support, is $300,000 to $700,000. Estimate of man-years of staff support required is 10 to 15, at an estimated cost of $325,000 to $525,000, totaling an estimated cost of $625,000 to $1,225,000.

Reports

The Commission shall make its report to the President by December 31, 1982.

Termination Date

The Commission shall terminate thirty days after submitting its report.

Approved:

2/26/82
Date

Richard S. Schweiker
Richard S. Schweiker
Secretary

THE WHITE HOUSE

WASHINGTON

February 27, 1982

Dear Chairman Greenspan
and Commission Members:

As you convene for the first time today, the Nation will be watching with great interest the work and progress of the National Commission on Social Security Reform. As I wrote to you at the time you agreed to serve, I can think of no more important domestic problem requiring resolution than restoring the integrity of Social Security and to do so without penalty to those dependent on the programs.

Every American, of every age, has an important stake in the success of your work. Each of you comes to this Commission from a position in government or the private sector through which you can make possible the successful implementation of a truly bipartisan solution to this great national problem.

This Commission is the product of the leadership of both parties of both houses of the Congress as much as it is mine. Therefore, on behalf of all Americans I wish you success as you begin your deliberations.

Sincerely,

Ronald Reagan

Chairman Alan Greenspan
and Members of the National Commission
on Social Security Reform

Appendix D

MEETINGS OF THE NATIONAL COMMISSION SOCIAL SECURITY REFORM

Date	Time
Saturday, February 27	10:00 a.m. - 2:00 p.m.
Friday, March 26	9:00 a.m. - 1:00 p.m.
Monday, May 10	1:00 p.m. - 5:00 p.m.
Monday, June 21	2:00 p.m. - 6:00 p.m.
Monday, July 19	2:00 p.m. - 6:00 p.m.
Friday, August 20	9:00 a.m. - 1:00 p.m.
Monday, September 20	2:00 p.m. - 6:00 p.m.
Thursday, Friday, and Saturday, November 11-13	10:00 a.m. - 5:00 p.m.
Friday, December 10	2.00 p.m. - 5:00 p.m.

Appendix E

STAFF MEMORANDUMS PREPARED FOR THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Staff Memorandum, Latest Cost Estimates for OASDI and HI Programs, February 26, 1982

Staff Memorandum, Development of the Social Security Program, February 27, 1982

Memorandum No. 1, Basic Method of Computing Social Security Benefits, March 9, 1982

Memorandum No. 2, History of Replacement Rates for Various Amendments to Social Security Act, March 10, 1982

Memorandum No. 3, Measurement of Actuarial Status of OASDI Program, March 11, 1982

Memorandum No. 4, Survey as to Valuation Period for OASDI and HI Programs, March 12, 1982

Memorandum No. 5, Annual Actuarial Balances of the Social Security Program, March 13, 1982

Memorandum No. 6, Progress of OASDI Trust Funds over the Years, March 14, 1982

Memorandum No. 7, Sensitivity Analysis of Assumptions in Alternative I and II-B of 1981 Trustees Report, March 15, 1982

Memorandum No. 8, Actuarial Status of OASDI Program over Next 25 Years under Alternative Assumptions, March 16, 1982

Memorandum No. 9, Analysis of Various Marginal Changes in Assumptions in Actuarial Cost Estimates, March 25, 1982

Memorandum No. 10, Short-Range Cost Estimates Made by CBO, March 29, 1982

Memorandum No. 11, Reimbursements to the Social Security Trust Funds from General Revenues, April 6, 1982

Memorandum No. 12, Comparison of Status of OASDI and HI Trust Funds as Shown in 1981 and 1982 Trustees Reports, April 6, 1982

Memorandum No. 13, Survey of Public Confidence as to Financial Status of the Social Security Program, April 7, 1982

Memorandum No. 14, History of Net Replacement Rates for Various Amendments to the Social Security Act, April 22, 1982

Memorandum No. 15, Past Trends of Actuarial Imbalances of OASDI and HI Trust Funds, April 7, 1982

Memorandum No. 16, Possible Method of Revising Social Security to a Self-Adjusting, Self-Stabilizing Basis, April 29, 1982

Memorandum No. 17, Background Information on Private Pensions, May 4, 1982

Principal Consultant Memorandum, Problem Areas in Private Pensions and State and Local Government Pensions, May 4, 1982

Memorandum No. 18, Analysis of Various Marginal Changes in Assumptions in Actuarial Cost Estimates, May 6, 1982

Memorandum No. 19, Possible Method of Revising Social Security to a Self-Adjusting Self-Stabilizing Basis (continued), May 27, 1982

Memorandum No. 20, The Low-Cost Demographic Period in the 1990s and Early 2000s, May 25, 1982

Memorandum No. 21, Further Information on Cost of OASDI Program According to 1982 Trustees Report, May 27, 1982

Memorandum No. 22, Increasing the Normal Retirement Age Under Social Security by an Automatic-Adjustment Method, June 4, 1982

Memorandum No. 23, How a Proposal for Automatic Changes in OASDI Tax Rates Would Operate, June 4, 1982

Memorandum No. 24, Possible Solutions to Long-Range Financing Problems of OASDI Program, June 4, 1982

Memorandum No. 25, Prevalence of Elections of Joint-and-Survivor Annuities under Private Pensions, June 7, 1982

Memorandum No. 26, Possible Method of Revising Social Security to a Self-Adjusting, Self-Stabilizing Basis (continued #2), June 4, 1982

Memorandum No. 27, Pension Receipt and Pension Coverage by Sex, June 14, 1982

Memorandum No. 28, Illustrative Cost Effects on Year-by-Year Basis for Several Proposals Affecting OASDI Long-Range Costs, June 21, 1982

Memorandum No. 29, Cost Aspects of Increasing the Normal Retirement Age under Social Security by an Automatic-Adjustment Method, June 28, 1982

Memorandum No. 30, Investment Procedures for the Social Security Trust Funds, June 28, 1982

Memorandum No. 31, Changes in Tax Treatment of Employee Contributions to Social Security and of Benefits and Faster Implementation of Currently Scheduled Payroll Tax Increases, July 1, 1982

Memorandum No. 32, Advantages of Social Security Coverage for Federal Employees, June 30, 1982

Memorandum No. 33, Relative Changes in Social Security Benefit Levels, June 30, 1982

Memorandum No. 34, Constitutionality of Prohibiting Withdrawal of Nonprofit Organizations Which Elected Social Security Coverage, July 1, 1982

Memorandum No. 35, Various Possible Funding Methods for OASDI Program, July 1, 1982

Memorandum No. 36, Cost Aspects of Indexing OASDI Benefit Formula by 75% of Wage Increases for a Limited Period, July 2, 1982

Memorandum No. 37, Comparison of Social Security Benefits and Replacement Rates Under Present Law and Under Proposal to Index Benefit Formula by 75% of Wage Increases for a Limited Period, July 12, 1982

Memorandum No. 38, Long-Range Cost Effect of Advancing the 1990 OASDI Tax Rate to 1983 or 1985, August 2, 1982

Memorandum No. 39, Ways in Which Civil Service Retirement System Provides Greater Benefit Protection Than Social Security, July 29, 1982

Memorandum No. 40, Crediting Unnegotiated Social Security Checks to the Trust Funds, July 30, 1982

Memorandum No. 41, Pros and Cons Regarding Proposals to Dedicate Alcohol and Tobacco Excise Taxes to Hospital Insurance or Disability Insurance Trust Funds, August 4, 1982

Memorandum No. 42, Earnings Sharing at Divorce under Social Security Programs in Canada and Germany, August 5, 1982

Memorandum No. 43, The Effects of Redeeming Trust Fund Assets, August 6, 1982

Memorandum No. 44, The Relative Economic Status of the "Young-Old" and the "Old-Old", August 12, 1982

Memorandum No. 45, Money's-Worth Comparison for Social Security Benefits, August 12, 1982

Memorandum No. 46, Recent Legislation Passed by Congress, September 1, 1982

Memorandum No. 47, "Personal Security Accounts: A Proposal for Fundamental Social Security Reform", by Boskin, Kotlikoff, and Shoven, September 1,1982

Memorandum No. 48, An Independent Social Security Agency, September 1, 1982

Memorandum No. 49, Conceptual Difference Between the Open-Group and Closed-Group Methods of Determining the OASDI Long-Range Unfunded Liability, September 1, 1982

Memorandum No. 50, Adjusting the Payroll Tax Rate to Compensate for the Erosion of the Tax Base Due to the Growth of Fringes, September 7, 1982

Memorandum No. 51, Amounts Needed in Short Run to Restore Financial Soundness of OASDI System, and Possibility of Obtaining Them from Increases in Tax Rates, September 9, 1982

Memorandum No. 52, Actuarial Cost Estimates of the Early 1970s in the Light of Current Conditions, September 8, 1982

Memorandum No. 53, Inclusion of Operations of Social Security and Medicare Trust Funds in the Unified Budget, September 8, 1982

Memorandum No. 54, Additional Information on CBO Estimate of Outlay Reductions and/or Revenue Increases Needed by OASDI Program in FY 1984 and 1985, September 9, 1982

Table, Comparison Of Combined Employer-Employee OASDI Tax Rate With OASDI Cost Rate For Various Future Years Under Different Economic Assumptions, September 28, 1982

Memorandum No. 55, Comparison of Two Alternative Wage Rate Measures That Could be Used in Indexing Social Security Benefits, September 29, 1982

Memorandum No. 56, Cost Effect of Increasing Contribution Rate for Self-Employed Persons to Combined Employer-Employee Rate, October 8, 1982

Memorandum No. 57, Reconciliation of Cost Estimates of CBO and SSA as to Amount of Additional Funding Needed by OASDI Trust Funds in 1982-85 in Order to Have Specified Fund Ratio at Beginning of 1986, October 14, 1982

Memorandum No. 58, The Effect of a Combination of Proposals on OASDI Long-Range Costs Assuming (1) Revocation of the 1985 and 1990 Tax Rate Increases or (2) Revocation of Only the 1990 Increase, October 15, 1982

Memorandum No. 59, Investment of the Social Security Trust Funds, October 20, 1982

Memorandum No. 60, Selected Temporary Sources of Revenues for the OASI Trust Fund for the 1980s, November 2, 1982

Memorandum No. 61, Number of Months Required for Total Benefit Payments to Exceed Accumulated OASDI Taxes, November 4, 1982

Memorandum No. 62, Amounts Needed in Short Run to Restore Financial Soundness of OASDI System Under "More Realistic" Pessimistic Cost Estimates, November 5, 1982

Background Book, Actuarial Cost Estimates for OASDI and HI and for Various Possible Changes in OASDI and Historical Data for OASDI and HI, November 1982

Table, Various Packages Which Will Meet the Shortfall in 1983-89, According to Alternative III Assumptions of 1982 Trustees Report, November 10, 1982

Tables, Comparison of Estimates of OASDI Income, Outgo, and Trust-Fund Balances Made by Social Security Administration and by Department of Commerce, November 10, 1982

Memorandum No. 63 (Revised), Methods to Assure Adequate Financing of OASDI Program Through Loans or Through Automatic Adjustment of Either Benefits or Taxes, November 22, 1982

Memorandum No. 64, Amounts Needed in Short Run to Restore Financial Soundness of OASDI System Under "More Realistic" Pessimistic Cost Estimates (extension of Memorandum No. 62), November 18, 1982

Decision Memorandum, Adoption of Certain Recommendations, December 3, 1982

General Memorandum, Section 401(k) of the Internal Revenue Code, December 9, 1982

General Memorandum, A Proposal to Index Benefits in Eligibility Status by Increases in Wages Minus 1½ Percentage Points, on a 15-Year Moving-Total Basis, December 9, 1982

Decision Memorandum, Adoption of Certain Recommendations (Revision and extension of Memorandum of December 3), December 13, 1982

Memorandum No. 65, Two Proposals as to Stabilizing the Cost of the OASDI Program With Regard to the Indexing of Benefits in Eligibility Status (Revised), December 15, 1982

396-938 O - 83 - 11

Memorandum No. 66, Dilemma of Making Cost Estimates for Indexing by "Lesser of Wages or Prices", December 15, 1982

Decision Memorandum, Adoption of Recommendation on Extension of Coverage, December 15, 1982

PAPERS PRESENTED TO THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Alicia H. Munnell, "The Private Pension System and Its Role in Providing Economic Security", May 10, 1982

Quentin I. Smith, Jr., "The Private Pension System and Its Role in Providing Economic Security", May 10, 1982

Robert N. Butler, "Note for Discussions Before the National Commission on Social Security Reform", June 21, 1982

Jacob J. Feldman, "Work Ability of the Aged Under Conditions of Improving Mortality", June 21, 1982

Nancy M. Gordon, "Statement Before the National Commission on Social Security Reform", July 19, 1982

Alice M. Rivlin, "Statement Before the National Commission on Social Security Reform", August 20, 1982

Henry Aaron, "Summary of Remarks to the National Commission on Social Security Reform", August 20, 1982

Michael J. Boskin, "Alternative Social Security Reform Proposals", August 20, 1982

Appendix G

STAFF MEMBERS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Executive Director	Robert J. Myers
Professional Staff	Nancy J. Altman Merton C. Bernstein E. Annette Coates Suzanne B. Dilk Renato A. DiPentima Susan A. Dower Elizabeth T. Duskin Timothy J. Kelley Eric R. Kingson Edward F. Moore Virginia P. Reno Bruce D.Schobel Carolyn L. Weaver
Support Staff	Laurie A. Brown Ercell C. Campbell Elisabeth J. Darling Wanda G. Moody Edward E. Mosley Tracey A. O'Donnell Isabel R. Paurowski Carol J. Upperman Doris C. Washington

NOTE: Some of these individuals were on the staff for only part of the duration of the National Commission, and some were part-time employees.

GLOSSARY

Average Indexed Monthly Earnings (AIME) -- The earnings used to determine the Primary Insurance Amount, on which benefits for a worker and family will be based. Earnings for each year after 1950 are updated (indexed) to the indexing year (the second year before the year in which the worker becomes age 62 or, if earlier, becomes disabled or dies) to take account of the increase in average wages since the year that they were earned. Earnings for the indexing year and subsequent years are used at their actual values. Then, the highest years of indexed earnings for a specified number of years are selected and averaged to yield the AIME.

Primary Insurance Amount (PIA) -- The amount on which all monthly OASDI benefits are based. A worker's PIA is derived from Average Indexed Monthly Earnings by applying it in a weighted benefit formula. Such formula for persons reaching age 62 in 1983 (or dying or becoming disabled before age 62 in 1983) is 90% of the first $254 of AIME, plus 32% of the next $1,274 of AIME, plus 15% of AIME in excess of $1,528. For persons attaining age 62 in subsequent years, the dollar figures are changed to reflect relative changes in nationwide average wages. A worker's disability benefit or old-age benefit at age 65 is equal to 100% of PIA. Other benefits are various percentages of the worker's PIA.

Maximum Family Benefit -- The maximum monthly amount that can be paid on a worker's earnings record. Whenever the amount of benefits payable on an earnings record exceeds the maximum, each auxiliary or survivor benefit is proportionately reduced to bring the total within the maximum. (Benefits for divorced spouses and surviving divorced spouses are excluded from this limit.)

Replacement Rate -- The worker's benefit (or the family benefit) as a percentage of prior earnings. If a worker earned $500 a month before retirement and receives a benefit of $350, the replacement rate is 70%.

Generally, the replacement rate is the relationship between the annual benefit rate payable for the first month of entitlement and the gross taxable earnings for the year before entitlement. However, in some contexts, it may be the relationship between the benefit and net after-tax earnings for the prior year. (In other contexts, the benefits payable for the first full year of entitlement, including any CPI increase for June and thereafter, are used as the numerator.)

Bend Points -- The points in the PIA benefit formula at which the percentage factor that is applicable to the AIME changes. For example, in the formula for those reaching age 62 in 1983, these points are $254 and $1,528. The percentages applicable are 90%, 32%, and 15%. When developing the formula for persons attaining age 62 in subsequent years, the percentages remain constant, but the dollar figures are changed to reflect relative changes in nationwide average wages.

Trust-Fund Ratio -- The trust-fund balance expressed as a percentage of total outgo during the next 12 months.

Cost Rate -- The outgo for benefits and administrative expenses for a year expressed as a percentage of the payroll that is taxable for Social Security purposes for that year.

Appendix J

FINANCIAL STATUS OF THE SOCIAL SECURITY PROGRAM

As a background for the discussion of the extent of the financing problems of the Old-Age and Survivors Insurance program (OASI), and recommendations for dealing with them, this appendix will deal with the operational procedures of the Social Security trust funds, their funding bases, the measures of actuarial or financial soundness, and the past and estimated future financial status of each trust fund.

There are four Social Security trust funds -- the OASI Trust Fund, the Disability Insurance Trust Fund (DI), the Hospital Insurance Trust Fund (HI), and the Supplementary Medical Insurance Trust Fund (SMI). The National Commission has considered almost exclusively the first three of these trust funds, which are financed primarily from payroll taxes. The SMI Trust Fund deals with that portion of the Medicare program which primarily provides partial reimbursement for the cost of physician services; it derives its financing from premiums paid by the enrollees and from payments from the General Fund of the Treasury.

NOTE: This appendix was prepared by Robert J. Myers, Executive Director. Any views expressed herein are those of Mr. Myers, and not necessarily those of the members of the National Commission.

OPERATIONAL PROCEDURES OF THE TRUST FUNDS

All four of the trust funds function as separate, closed entities. All sources of their financing (including any interest earned on their invested assets) go into the funds, and all benefit payments and related administrative expenses are paid from them. As a general principle, if a particular trust fund has insufficient assets to meet outgo, there is no way under the permanent law that it can borrow from any of the other three trust funds or from the General Fund of the Treasury. (A temporary borrowing authority, which exists for 1982 only, will be discussed later.) Any assets of the trust funds which are not needed for immediate payment of benefits or administrative expenses are invested in interest-bearing government obligations, and relatively small working cash balances are maintained.

The income from payroll taxes for the OASI, DI, and HI Trust Funds tends to be spread rather evenly throughout each month (although not equally throughout the months of the year, with somewhat more being collected in the early months than in the later ones, due to the effect of the maximum taxable earnings base). The vast majority of the benefit payments from the OASI and DI Trust Funds are made at the beginning of each month. In contrast, the outgo of the HI and SMI Trust Funds tends to be more or less evenly spread throughout the month.

As a result of these different flows of income and outgo, the three trust funds which are supported primarily by payroll taxes have somewhat different financial situations during the month. The OASI and DI Trust Funds must have sufficient assets during the first few days of each month to meet the full amount of monthly benefit checks sent out then. Benefit checks cannot be transmitted to the beneficiaries unless sufficient payroll-tax and other income has been received to build up the trust-fund balance to the necessary level. The HI Trust Fund need have only a very small balance at the beginning of the month in order to reimburse hospitals and other providers of services in a proper manner, because both its income and outgo are evenly spread throughout the month.

The SMI Trust Fund, too, need have only a very small balance at the end of each month, because it receives the vast majority of its enrollee-premium income at the beginning of the month (through automatic deductions from monthly OASDI benefit checks).

FUNDING PROCEDURES FOR THE TRUST FUNDS

Under present law, the OASI, DI, and HI Trust Funds are financed almost entirely from the OASDI-HI taxes levied on employers, employees, and the self-employed. Each of these trust funds receives relatively small payments from the General Fund of the Treasury as reimbursement for the cost of benefits

for certain special closed groups of persons.1/ This self-supporting financing principle has, on the whole, been applicable to the OASI, DI, and HI programs ever since their inception. For a short period in the late 1940s, the financing basis was rather indeterminate, because provision was made for payments from the General Fund of the Treasury, if needed. This provision was never used, and it was repealed in 1950.

In the early years, the OASI program was funded on a modified-reserve basis. It was intended that a sizable fund would be built up, so that interest earnings could help to finance the outgo. This basis would by no means result in a "fully-funded" system.

Over the years, the original emphasis on building up and maintaining a large fund was reduced. Gradually, the funding basis shifted, in practice, to what might be called a current-cost or pay-as-you-go basis. The intent under such a basis is that income and outgo should be approximately equal each year and that a fund balance should be maintained which will be only large enough to meet cyclical fluctuations both within the year and also over economic cycles which have durations of several years. There is no established rule as to the desirable size of a contingency fund, although the general view is that it should be an amount equal to between 6 and 12 months' outgo.

The financial status of the OASI, DI, and HI Trust Funds has always been evaluated over a long future period. For the OASI and DI Trust Funds, 75 years

is used (although prior to 1965, a longer period -- namely, into perpetuity -- was used). The valuation period for the HI program is 25 years, although estimates for a 75-year period have been made. The shorter valuation period for the HI program was adopted because of the greater uncertainty about future trends of hospital costs.

The actuarial valuation of the SMI program is on an entirely different basis, because it is, in essence, a "one-year term" plan. The valuation procedure used compares the assets on hand with the accrued, but unpaid claims (and associated administrative expenses).

MEASURES OF ACTUARIAL OR FINANCIAL SOUNDNESS

Several measures have been developed to determine the actuarial status or financial soundness of the programs. Some of these relate essentially to the short-range period (the next 5-10 years), whereas others relate to the valuation period used for the particular program.

Short-Range Measures of Soundness

Undoubtedly, the primary measure of short-range soundness is that the particular trust fund should always have at least enough assets to meet current expenditures.

A measure frequently used for measuring both the short-range and long-range financial status of the OASI, DI, and HI Trust Funds is the "fund ratio". This is defined as the trust-fund balance at the end of a month expressed as a percentage of total outgo during the next 12 months.2/

It is usually stated that the OASI and DI Trust Funds must have fund ratios of at least 8% or 9% as the minimum possible for monthly benefits to be paid on time. Much more desirably, the "bare minimum" size should not be below some higher figure, such as 15% (or perhaps 20%) so as to provide a "cushion" against the effects of adverse economic conditions. The 8-9% figure for the OASI and DI Trust Funds is derived from the fact that, if outgo during the year were spread equally over each month, the monthly disbursements would be 8-1/3% of annual outgo. Accordingly, this amount would have to be on hand at the beginning of the year in order to meet the benefit payments due in a few days.3/

Benefit outgo tends to rise during a calendar year (primarily because of the automatic increase in benefits for June and the gradual growth of the number of persons on the benefit rolls). Also, in the early months of a calendar year, tax income tends to be relatively higher than in later months of the year (due to the effect of the maximum taxable earnings base and the payment of a relatively large portion of the self-employment taxes in April). Accordingly, the fund ratio could be as low as 7% at the beginning of a year, and yet the program could meet all of its benefit obligations as they fall due if the level of tax income during the year (which does not enter into the computation of the

fund ratio) is sufficiently high. This could occur either because of an increase in the tax rate or because of better economic conditions. The crucial factor under such circumstances would be the fund ratio which would be reached at the end of the year, which should be at a level of at least 8-9%.

The minimum fund ratio for the HI Trust Fund can be considerably lower than the 9% used as the standard for the OASI and DI Trust Funds. It could be argued that a relatively large fund ratio for the HI Trust Fund might be desirable, because of the somewhat greater possible cost fluctuations and uncertainties of this program as compared with the OASDI program. However, the minimum fund ratio at the beginning of a year needed in order to assure prompt reimbursement of providers of services can be as little as 1% -- as long as, in the coming year, tax income will be at least as large as outgo during the year.4/

Long-Range Measures

One measure of the long-range financial status of the OASI, DI, and HI Trust Funds is to compare the "average cost rate" with the "average tax rate" over the valuation period. The "cost rate" for any particular year is the outgo for benefits and administrative expenses expressed as a percentage of effective taxable payroll.5/ The "average cost rate" is the sum of the annual cost rates for the valuation period divided by the number of years therein. Similarly, the "average tax rate" is the average of the combined employer-employee tax rates for each of the years in the valuation period. When the average cost rate

exceeds the average tax rate for the valuation period, there is a lack of actuarial balance, expressed as a percentage of taxable payroll.

FINANCIAL STATUS OF OASI AND DI TRUST FUNDS

This section will examine the financial status of the OASI and DI Trust Funds in past years, their current status, and their outlook over both the short range and the long range.

Past Operations

Table 1 shows the year-end balances of each of the four trust funds for various past years. The OASI Trust Fund increased slowly during the early 1970s, reaching a maximum in 1974. Thereafter, its balance decreased steadily. The decline would have been even more rapid in 1980-81 if it had not been for a reallocation of the combined OASDI tax rate, so that a larger proportion went to the OASI Trust Fund (P.L. 96-403, October 9, 1980). As a result, almost $9 billion was, in essence, transferred from the DI Trust Fund to the OASI Trust Fund.

At the end of October 1982, the balance in the OASI Trust Fund amounted to $10.0 billion -- about $1 billion less than the amount needed to pay benefits in early November. As a result, the inter-fund borrowing of $.6 billion from the

Table 1

BALANCES IN TRUST FUNDS AT END OF VARIOUS PAST YEARS
(in billions)

Calendar Year	OASI	DI	OASDI	HI	SMI	Total
1970	$32.5	$5.6	$38.1	$3.2	$.2	$41.5
1971	33.8	6.6	40.4	3.0	.5	43.9
1972	35.3	7.5	42.8	2.9	.6	46.3
1973	36.5	7.9	44.4	6.5	1.1	52.0
1974	37.8	8.1	45.9	9.1	1.5	56.5
1975	37.0	7.4	44.4	10.5	1.4	56.5
1976	35.4	5.7	41.1	10.6	1.8	53.5
1977	32.5	3.4	35.9	10.4	3.1	49.4
1978	27.5	4.2	31.7	11.5	4.4	47.6
1979	24.7	5.6	30.3	13.2	4.9	48.4
1980	22.8	3.6	26.4	13.7	4.5	44.6
1981	21.5	3.0	24.5	18.7	5.9	49.1
08/31/82	14.3	6.3	20.6	20.9	5.8	47.3
09/30/82	12.5	6.8	19.3	20.8	5.8	45.9
10/31/82	10.0	6.9	16.9	20.5	5.9	43.3

DI Trust Fund, authorized by P.L. 97-123 (December 29, 1981), was utilized to make up the difference. In early December, $3.4 billion was borrowed from the HI Trust Fund. In late December, an additional $13.5 billion was borrowed -- $4.5 billion from the DI Trust Fund, and the remainder from the HI Trust Fund. From this time on (until corrective legislative action is taken), the OASI Trust Fund will, in fact, have a negative balance in at least part of each month -- when the assets on hand are measured against the outstanding loans from the DI and HI Trust Funds.

It was not at all unexpected that borrowing would occur in late 1982. In fact, the 1982 OASDI Trustees Report contains estimates which indicate that the total borrowing of the OASI Trust Fund from the DI and HI Trust Funds during 1982 would amount to about $7-11 billion. The actual amount borrowed in 1982 was $17.5 billion. Almost all of this will be utilized in the first six months of 1983, because the legislative action permitted no more to be borrowed in 1982 than would be necessary to meet the estimated outgo requirements through June 1983.

The DI Trust Fund had a balance of $7.5 billion at the end of 1972, but this decreased steadily thereafter, reaching $3.4 billion at the end of 1977. Then, as a result of the reallocation of the OASDI tax rate in the 1977 Amendments (P.L. 95-216) to give more of the OASDI tax rate to the DI Trust Fund (as discussed in more detail later), the balance increased -- reaching $5.6 billion at the end of 1979. Such balance was lower at the end of both 1980 and

1981, as a result of the further revised allocation of the OASDI tax rate for 1980-81 mentioned previously -- reaching $3.0 billion at the end of 1981. The DI Trust Fund increased during most of 1982 and had a balance of $6.9 billion on October 31. However, by the end of the year its working balance (considering only investments and cash accounts) was lower -- as a result of the loans made to the OASI Trust Fund. From an accounting standpoint, however, the assets of the DI Trust Fund should include the amount of such loans, and so its "true" year-end balance will be significantly higher than its balance on October 31.

The balance in the OASI Trust Fund at the beginning of 1970 was approximately equal to annual outgo -- i.e., a fund ratio of about 100% (see Table 2). The fund ratio steadily decreased thereafter, reaching 15% at the beginning of 1982. In the absence of inter-fund borrowing -- or, equivalently, if the loans from the DI and HI Trust Funds were paid back at the beginning of 1983 -- the fund ratio then would be only about 4-6% (which would be insufficient to pay benefits on time).

The DI Trust Fund had a fund ratio of 126% at the beginning of 1970. This fell to 26% at the beginning of 1978 and then rose to 35% at the beginning of 1980. As a result of the revised allocation of the OASDI tax rate, it decreased to only 16% at the beginning of 1982. However, at the beginning of 1983, the fund ratio would be about 40% if the loans to the OASI Trust Fund are considered as assets.

Table 2

TRUST-FUND RATIOS AT BEGINNING OF VARIOUS PAST YEARS

Calendar Year	OASI	DI	OASDI	HI	OASDI-HI
1970	101%	126%	103%	47%	96%
1971	94	140	99	54	93
1972	88	140	93	47	87
1973	75	125	80	40	76
1974	68	110	73	69	73
1975	63	92	66	79	68
1976	54	71	57	77	60
1977	47	48	47	66	50
1978	39	26	37	57	41
1979	30	30	30	54	34
1980	23	35	25	52	29
1981	18	21	18	45	23
1982	15	16	15	53	22

NOTE: The "trust-fund ratio" is the ratio of the balance in the Trust Funds on a particular date to the outgo in the next 12 months.

Actual Experience in 1978-81 as Compared with Estimates Made in 1977

The 1978 OASDI Trustees Report stated that the 1977 Amendments would "restore the financial soundness of the cash benefit program throughout the remainder of this century and into the early years of the next one." It was further stated that, beginning in 1981, the short-range and medium-range annual deficits of the trust funds would be eliminated. However, this did not occur -- because of the adverse economic conditions during 1979-81, when prices rose more rapidly than wages and unemployment was substantially higher than anticipated (and despite the actual disability experience being more favorable than had been estimated to occur).

The intermediate cost estimates for the OASDI Trust Funds that were made in 1977 for the law as then amended showed decreases in the fund balance in 1978-80 (a total drop of $8.0 billion), but a significant build-up in 1981 ($7.4 billion). In actuality, there were decreases of $9.4 billion in 1978-80 and of $1.9 billion in 1981. The pessimistic estimate made in 1977 showed that income and outgo would be in very close balance in 1981-84, but the actual economic conditions have been worse, so that a substantial deficit occurred in 1981 instead, and much larger ones apparently are ahead.

Short-Range Cost Situation

Under present law, the OASI Trust Fund will very likely be unable to pay benefits on time beginning in July 1983. Table 3 compares the income (exclusive of interest payments) and the outgo of the OASI Trust Fund for 1982-90, under the intermediate cost estimate (Alternative II-B) and under the pessimistic cost estimate (Alternative III). Under the intermediate estimate, the deficit of income as against outgo is about $20 billion in most years. Under the pessimistic estimate, the annual deficit increases from about $20 billion in the early years to $55 billion in 1989 (and even in 1990, when there is a higher tax rate, it is $43 billion).

The bleak picture for OASI changes somewhat when the DI program is also considered. It will be recalled that, in the 1977 Amendments, the portion of the OASDI tax rate which is allocated to the DI Trust Fund was increased significantly, because of its unfavorable and worsening situation during 1970-75 and the expectation that this adverse trend would continue. Instead, beginning in 1976, the disability experience became more favorable (although this was not recognized in the cost estimates made at the time of the 1977 Amendments). In addition, several legislative changes were made in 1977 and 1980 which resulted in lower costs for the DI program. As a result, the DI Trust Fund had, following 1977, very favorable net-income experience.

Table 3

COMPARISON OF INCOME (EXCLUDING INTEREST) AND OUTGO

(in billions)

Calendar Year	OASI Income	OASI Outgo	OASI Net Income	DI Income	DI Outgo	DI Net Income	OASDI, Net Income
			Alternative II-B Estimate				
1982	$124.9	$141.9	-$17.0	$22.3	$18.1	+$4.2	-$12.8
1983	137.4	156.5	-19.1	24.9	19.0	+5.9	-13.2
1984	152.3	173.0	-20.7	27.5	19.9	+7.6	-13.1
1985	172.4	190.9	-18.5	34.4	21.3	+13.1	-5.4
1986	187.8	208.5	-20.7	37.6	22.7	+14.9	-5.8
1987	203.4	226.3	-22.9	40.8	24.2	+16.6	-6.3
1988	220.2	244.5	-24.3	44.1	25.8	+18.3	-6.0
1989	237.3	263.2	-25.9	47.6	27.6	+20.0	-5.9
1990	272.4	282.2	-9.8	58.6	29.4	+29.2	+19.4
			Alternative III Estimate				
1982	$124.9	$141.9	-$17.1	$22.2	$18.1	+$4.1	-$13.0
1983	134.5	157.7	-23.2	24.3	19.1	+5.2	-18.0
1984	147.3	177.2	-29.9	26.6	20.3	+6.3	-23.6
1985	170.1	199.8	-29.7	33.9	22.2	+11.7	-18.0
1986	188.8	224.0	-35.2	37.8	24.3	+13.5	-21.7
1987	208.3	250.2	-41.9	41.8	26.5	+15.3	-26.6
1988	229.5	277.7	-48.2	46.0	28.9	+17.1	-31.1
1989	252.0	306.8	-54.8	50.5	31.6	+18.9	-35.9
1990	294.6	337.5	-42.9	63.4	34.4	+29.0	-13.9

Both the intermediate and pessimistic cost estimates for 1982-90 show that the DI Trust Fund will have steadily increasing annual net income (as shown in Table 3). When the OASI and DI Trust Funds are considered in combination,6/ deficits of income over outgo remain, but of a much smaller magnitude than for the OASI Trust Fund alone.

As Table 3 shows, even under the intermediate cost estimate, the net income of the combined OASDI Trust Funds shows deficits during the remainder of the 1980s -- about $13 billion per year in 1982-84 and about $6 billion per year in 1985-89. In 1990, however, with the scheduled increase in the tax rate, a positive net income of almost $20 billion is shown.

However, a quite different picture for the combined OASDI Trust Funds during 1982-90 is shown under the pessimistic estimate. The annual deficits are about $20 billion in the early years of the period and increase to $36 billion by 1989. In 1990, even with the tax-rate increase, a deficit of $14 billion is shown.

A somewhat more precise way to examine the financial status of the OASI Trust Fund in the 1980s is to consider the increase in tax income -- or, alternatively, the reductions in benefit outgo -- that would be required during the period to reach certain alternative target levels of the fund ratios for the OASDI Trust Funds by the beginning of 1988.7/

Tables 4a and 4b present the estimates of the increase in tax income needed for the OASDI Trust Funds -- or, alternatively, the decrease in benefit outgo needed -- according to the intermediate and pessimistic cost estimates of the 1982 Trustees Report. The figures are only slightly different whether there are increases in tax income or decreases in benefit outgo. Table 4c gives similar data for two other pessimistic sets of economic assumptions.

To achieve a trust-fund ratio of 15% by 1988 would require additional tax income or decreased benefit outgo (or a combination of both) of about $200 billion under the pessimistic estimate. If a trust-fund ratio of 25% were desired, the corresponding figure would be about $225 billion under the pessimistic estimate. Under the intermediate cost estimate, the corresponding figures are about $75 billion for a 15% fund ratio and $100 billion for a 25% fund ratio. Quite obviously, if the additional financing were provided on the basis of the pessimistic estimate, and if the economic experience is more favorable, the trust-fund ratio which would be obtained by the end of the period would be higher than the target -- a not undesirable result.

In some ways, the economic assumptions underlying Alternative III do not seem to be realistic in view of current economic events, because both the assumed CPI and wage increases are relatively high as compared with current experience. Accordingly, it seems desirable to test the effect of lower assumed future increases in the CPI and in wages, but with a pessimistic real-wage differential (as is the case, for example, in Alternative III).

Table 4a

ESTIMATED TOTAL INCREASE IN OASDI TAX INCOME REQUIRED DURING 1983-89 TO REACH ALTERNATIVE TARGET LEVELS OF TRUST-FUND RATIOS BY BEGINNING OF 1988, UNDER ALTERNATIVES II-B AND III (IN BILLIONS)

Calendar Year	1988 Trust-Fund Ratio of 15%		1988 Trust-Fund Ratio of 25%	
	Alternative II-B Assumptions	Alternative III Assumptions	Alternative II-B Assumptions	Alternative III Assumptions
1983	$22	$26	$24	$27
1984	15	26	20	32
1985	7	20	11	25
1986	8	25	13	30
1987	8	30	14	39
1988	8	34	8	35
1989	7	40	8	40
1983-89	75	201	98	228

NOTE: The "trust-fund ratio" is the ratio of the balance in the OASDI Trust Funds on a particular date to the outgo in the next 12 months.

NOTE: The figures in this table do not include the repayment of the loan from the HI Trust Fund to the OASI Trust Fund in 1982 (about $5 billion).

NOTE: The figures do take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

Table 4b

ESTIMATED TOTAL REDUCTION IN OASDI BENEFIT OUTGO REQUIRED DURING 1983-89 TO REACH ALTERNATIVE TARGET LEVELS OF TRUST-FUND RATIOS BY BEGINNING OF 1988, UNDER ALTERNATIVES II-B AND III (IN BILLIONS)

Calendar Year	1988 Trust-Fund Ratio of 15%		1988 Trust-Fund Ratio of 25%	
	Alternative II-B Assumptions	Alternative III Assumptions	Alternative II-B Assumptions	Alternative III Assumptions
1983	$20	$23	$20	$23
1984	17	26	20	30
1985	7	22	13	26
1986	8	24	13	29
1987	8	29	14	37
1988	8	34	9	35
1989	9	44	10	46
1983-89	77	202	99	226

NOTE: The "trust-fund ratio" is the ratio of the balance in the OASDI Trust Funds on a particular date to the outgo in the next 12 months.

NOTE: The figures in this table do not include the repayment of the loan from the HI Trust Fund to the OASI Trust Fund in 1982 (about $5 billion).

NOTE: The figures do take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

Table 4c

COMPARISON OF ADDITIONAL FUNDS NEEDED
TO BUILD UP FUND RATIO FOR OASDI PROGRAM
(in billions)

Calendar Year	Alternative III Estimate	Revised Pessimistic Estimate	Commerce Alternative 2 Estimate
1983	$26	$23	$23
1984	26	26	22
1985	20	20	15
1986	25	23	23
1987	30	26	41
1988	34	26	39
1989	40	29	41
1983-89	201	173	205

Accordingly, two sets of revised economic assumptions have been prepared. In the first set, the CPI increases in Alternative II-B have been assumed to apply for what might be referred to as the "revised pessimistic" cost estimate, because these CPI increases seem reasonable in light of current conditions (although they may be a little on the high side). It has been assumed that the real-wage differential of Alternative III is then applicable on top of these CPI increases, and from these two elements, the wage increases have been determined. The second set has been prepared by the Department of Commerce at the request of the National Commission. The resulting cost estimates of the additional resources needed are shown in Table 4c.

The result under the "revised pessimistic" cost estimate is that $173 billion in additional resources would be necessary in 1983-89 in order to have a viable program and to attain a fund ratio of 15% at the beginning of 1988 and thereafter. Under the Alternative 2 (or pessimistic) estimate of the Department of Commerce, the corresponding figure is $205 billion, which is almost exactly the same as that under the SSA Alternative III estimate. Thus, it may be seen that this is another justification of the $150-200 billion amount agreed to by the National Commission.

Long-Range Cost Situation

The long-range financial status of the OASDI program will first be considered by looking at the estimated cost rates as compared with the combined

employer-employee tax rates, on a year-by-year basis. The National Commission has agreed that the long-range costs to be considered should be based on the intermediate cost estimate. The other cost estimates are discussed here so as to indicate the possible effect of alternative conditions.

Under the intermediate cost estimate, beginning in 1990 (when the OASDI tax rate is scheduled to increase significantly, and when a period of favorable demographic conditions is almost certain to occur[8/]), the cost rates are smaller than the combined employer-employee tax rates (see Table 5). This situation continues for about the next two decades, with the excess generally ranging from about 1% to 1½% of taxable payroll. This period has been widely referred to as one when the program will be running large excesses of income over outgo and, as a result, building up large trust-fund balances.

A quite different picture is shown for the 1990s and early 2000s under the pessimistic cost estimate. The OASDI tax rate during the 1990s and early 2000s falls short of the cost rate each year by about ½% of taxable payroll (see Table 5). Corresponding figures for the optimistic (Alternative I) estimate are not shown in Table 5 on a year-by-year basis, but they are shown for 25-year periods in Table 6; under this estimate, the OASDI tax rate during the 1990s and early 2000s exceeds the cost rate each year by about 3% of taxable payroll.

Table 5

ESTIMATED COST RATES OF OASDI PROGRAM UNDER ALTERNATIVES II-B AND III AND COMPARISON WITH TAX RATES, 1982-2055
(as percent of taxable payroll)

Calendar Year	OASDI Tax Rate a/	Alternative II-B Cost Rate	Alternative II-B Difference b/	Alternative III Cost Rate	Alternative III Difference b/
1982	10.80%	11.78%	-.98%	11.83%	-1.03%
1985	11.40	11.70	-.30	12.40	-1.00
1990	12.40	11.64	+.76	12.85	-.45
1995	12.40	11.42	+.98	12.97	-.57
2000	12.40	11.03	+1.37	12.82	-.42
2005	12.40	10.95	+1.45	12.97	-.57
2010	12.40	11.53	+.87	13.92	-1.52
2015	12.40	12.82	-.42	15.76	-3.36
2020	12.40	14.44	-2.04	18.17	-5.77
2025	12.40	15.97	-3.57	20.70	-8.30
2030	12.40	16.83	-4.43	22.63	-10.23
2035	12.40	17.02	-4.62	23.94	-11.54
2040	12.40	16.80	-4.40	24.80	-12.40
2045	12.40	16.66	-4.26	25.80	-13.40
2050	12.40	16.72	-4.32	26.93	-14.53
2055	12.40	16.81	-4.41	27.87	-15.47
Averages					
1982-2006	12.01	11.37	+.64	12.73	-.72
2007-31	12.40	14.08	-1.68	17.84	-5.44
2032-56	12.40	16.81	-4.41	25.66	-13.26
1982-2056	12.27	14.09	-1.82	18.74	-6.47

a/ For employer and employee combined.

b/ Tax rate minus cost rate. Positive differences are referred to as cash-flow surpluses, and negative differences as deficits.

NOTE: These estimates do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). If this had been done, the cost rates would have been slightly lower.

SOURCE: Tables 27 and 29 of the 1982 OASDI Trustees Report.

Table 6

LONG-RANGE STATUS OF OASDI-HI TRUST FUNDS

COMPARISON OF ESTIMATED AVERAGE COST RATE WITH AVERAGE TAX RATE BY ALTERNATIVE AND TRUST FUND
[As percent of taxable payroll]

Calendar years	Average tax rate	Estimated average cost rate by alternative				Difference by alternative			
		I	II-A	II-B	III	I	II-A	II-B	III
OASI:									
1982-2006.....	9.93	8.64	9.31	10.14	11.37	1.29	0.63	-0.21	-1.44
2007-31.....	10.20	9.84	11.58	12.43	15.83	.36	-1.38	-2.23	-5.63
2032-56.....	10.20	10.58	14.11	15.20	23.60	-.38	-3.91	-5.00	-13.40
1982-2056.....	10.11	9.69	11.66	12.59	16.93	.42	-1.55	-2.48	-6.82
DI:									
1982-2006.....	2.07	1.11	1.16	1.23	1.36	.97	.92	.85	.72
2007-31.....	2.20	1.45	1.57	1.65	2.00	.75	.63	.55	.20
2032-56.....	2.20	1.30	1.54	1.61	2.07	.90	.66	.59	.13
1982-2056.....	2.16	1.29	1.42	1.50	1.81	.87	.73	.66	.35
Total:									
1982-2006.....	12.01	9.75	10.46	11.37	12.73	2.26	1.55	.64	-.72
2007-31.....	12.40	11.30	13.15	14.08	17.84	1.10	-.75	-1.68	-5.44
2032-56.....	12.40	11.88	15.65	16.81	25.66	.52	-3.25	-4.41	-13.26
1982-2056.....	12.27	10.98	13.09	14.09	18.74	1.29	-.82	-1.82	-6.47

Note: The definitions of alternatives I, II-A, II-B, and III, cost rate, tax rate, and taxable payroll are presented in the text. Totals do not necessarily equal the sum of rounded components.

ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS a/

(Percent of Taxable Payroll)

	Alternative			
	I	II-A	II-B	III
Average contribution rate, scheduled under present law b/	2.86%	2.86%	2.86%	2.86%
Average cost of the program, for expenditures and for trust fund maintenance c/	3.72 a/	4.49 a/	4.93 a/	6.59 a/
Actuarial balance	-0.86	-1.63	-2.07	-3.73

a/ Does not reflect the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). When the effect of this legislation is taken into account, the average 25-year cost exclusive of trust-fund building and maintenance under Alternative II-B is 4.34% of taxable payroll (as contrasted with the comparable figure of 4.83% before enactment of such legislation).

b/ Average for the 25-year period, 1982-2006.

c/ Average for the 25-year period, 1982-2006, expressed as a percentage of taxable payroll.

NOTE: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

SOURCE: 1982 OASDI-HI Trustees Report.

In the period following 2010, under the intermediate cost estimate, the OASDI tax rate tends to fall short of the cost rate by an increasing margin -- beginning in 2030, by almost 4½% of taxable payroll. Under the pessimistic cost estimate, the excess of the cost rate over the tax rate steadily increases, until it reaches somewhat over 15% of taxable payroll. On the other hand, under the optimistic cost estimate, the OASDI tax rate exceeds the cost rate until about 2025; it is lower for the next 10 years, but once again is higher (by about 1% of taxable payroll at the end of the 75-year valuation period).

Over the entire 75-year valuation period, the average OASDI cost rate exceeds the average combined employer-employee tax rate by 1.82% of taxable payroll in the intermediate cost estimate of the 1982 Trustees Report (see Table 6).9/ It may be noted that 1.82% of the total taxable payroll in 1982 was about $25 billion per year.

The long-range actuarial imbalance is almost 6½% of taxable payroll under the pessimistic cost estimate. The optimistic cost estimate (Alternative I) shows a favorable actuarial balance of 1.29% of taxable payroll, while the more optimistic of the two intermediate cost estimates (Alternative II-A) shows an actuarial deficiency of .82% of taxable payroll.

When successive 25-year periods are considered, the intermediate cost estimate for the OASDI program shows a small positive balance (.64% of taxable

payroll) for the first period. This occurs because the "deficits" of income over outgo in the 1980s are more than offset by the "surpluses" following 1990 (and up through 2006). Increasingly larger deficits are shown for the next two 25-year periods -- 1.68% of taxable payroll for the second period and 4.41% of taxable payroll for the third period. The deficit in the second period is 12% of the average cost rate (which means that, if benefit outgo were to be decreased sufficiently to be financed by the average tax rate, a reduction of 12% would be necessary). The deficit for the third period is 26% of the average cost rate.

When the first 50-year period is considered as a whole, there is a "deficit" of income over outgo of .52% of taxable payroll for the OASDI program, according to the intermediate cost estimate. The corresponding figure for the pessimistic cost estimate is a "deficit" of 3.08% of taxable payroll, while under the optimistic estimate, there is a "surplus" of 1.68% of taxable payroll.

It is important to note that, if an economic stabilizing mechanism (such as is described in Chapter 2) were in effect in the 1990s and after, then the adverse results shown for present law under the pessimistic cost estimate would not occur. Rather, there would be excesses of tax income over outgo for benefit payments and administrative expenses throughout the period.

The estimated significant annual excesses of the OASDI tax rate over the cost rate in the 1990s and early 2000s result in a sizable build-up of

trust-fund assets under the intermediate cost estimate (assuming that, in the 1980s, the deficits occurring then were financed in some manner, even though they might be repaid later). Table 7 indicates that a fund ratio of about 180% is estimated to occur between 2010 and 2015, but thereafter it decreases rapidly until the fund would be exhausted shortly after 2025. Under the pessimistic cost estimate, the OASDI fund ratio would never become positive, because the cost rates always exceed the tax rates. Quite naturally, under the more optimistic of the cost estimates, the cost rates are lower than the tax rates in almost all years after 1990, and so the fund ratio increases steadily over the 75-year valuation period.

Effect of the Real-Wage Differential

Perhaps the most significant economic factor affecting costs in the actuarial estimates for the OASDI program is the real-wage differential, which is (1) the annual percentage increase in wages and salaries in covered employment, minus (2) the annual percentage increase in the CPI(W). The assumptions for the differential are based primarily on a projection of historical trends, which in turn reflect productivity gains and the factors that link such gains with the real-wage differential. Such differential has a direct effect on the cost estimates, but the associated assumptions for productivity gains and the factors linking such gains with the real-wage differential (as discussed in the next paragraph) do <u>not</u> have a direct effect on the long-range cost estimates expressed as a percentage of taxable payroll.

Table 7

ESTIMATED TRUST FUND RATIOS BY ALTERNATIVE AND TRUST FUND, CALENDAR YEARS 1982-2060

	Alternative I			Alternative II-A			Alternative II-B			Alternative III		
Calendar year	OASI	DI	Total	OASI	DI	Total	OASI	DI	Total	OASI	DI	Total
1982	15	16	15	15	16	15	15	16	15	15	16	15
1983	10	8	10	10	8	10	11	8	10	11	8	11
1984	1	48	6	(1)	47	4	(2)	43	3	(2)	39	1
1985	-7	98	4	-11	93	(1)	(2)	84	-4	(2)	71	(2)
1986	-10	178	9	-18	169	(2)	(2)	148	-7	(2)	125	(2)
1987	-10	265	17	-24	253	3	(2)	217	-10	(2)	181	(2)
1988	-9	359	27	-28	342	8	(2)	288	-13	(2)	239	(2)
1989	-6	464	40	-30	432	15	(2)	361	-16	(2)	297	(2)
1990	(2)	567	56	-32	524	22	(2)	436	-19	(2)	356	(2)
1991	15	696	82	-26	642	39	(2)	536	-13	(2)	436	(2)
1992	31	811	110	-18	753	58	(2)	631	-7	(2)	509	(2)
1993	47	934	138	-10	859	77	(2)	723	(3)	(2)	577	(2)
1994	65	1,041	167	(1)	961	97	(2)	812	7	(2)	643	(2)
1995	84	1,137	197	8	1,054	116	(2)	895	15	(2)	705	(2)
1996	104	1,208	228	18	1,122	136	(2)	959	23	(2)	755	(2)
1997	127	1,278	260	29	1,187	157	(2)	1,019	32	(2)	799	(2)
1998	150	1,345	293	41	1,247	178	(2)	1,076	42	(2)	837	(2)
1999	175	1,411	326	52	1,317	200	(2)	1,130	53	(2)	871	(2)
2000	202	1,468	362	67	1,369	223	(2)	1,178	64	(2)	900	(2)
2001	232	1,532	400	82	1,421	247	(2)	1,227	76	(2)	927	(2)
2002	262	1,589	438	99	1,467	271	(2)	1,270	89	(2)	951	(2)
2003	293	1,830	474	116	1,502	295	(2)	1,303	102	(2)	967	(2)
2004	324	1,656	510	133	1,526	317	(2)	1,327	115	(2)	977	(2)
2005	354	1,656	542	149	1,531	338	(2)	1,332	128	(2)	976	(2)
2006	384	1,702	576	165	1,568	358	(2)	1,366	140	(2)	991	(2)
2010	485	1,797	684	216	1,645	419	(2)	1,435	177	(2)	1,005	(2)
2015	539	1,967	745	224	1,779	434	(2)	1,549	177	(2)	1,033	(2)
2020	520	2,198	739	168	1,962	387	(2)	1,703	125	(2)	1,076	(2)
2025	457	2,549	698	67	2,240	300	(2)	1,938	31	(2)	1,162	(2)
2030	386	3,000	682	(2)	2,595	196	(2)	2,241	(2)	(2)	1,287	(2)
2035	332	3,410	651	(2)	2,902	89	(2)	2,504	(2)	(2)	1,390	(2)
2040	304	3,735	675	(2)	3,123	(2)	(2)	2,693	(2)	(2)	1,456	(2)
2045	298	4,031	719	(2)	3,295	(2)	(2)	2,837	(2)	(2)	1,515	(2)
2050	301	4,443	766	(2)	3,558	(2)	(2)	3,061	(2)	(2)	1,619	(2)
2055	305	4,942	811	(2)	3,873	(2)	(2)	3,330	(2)	(2)	1,758	(2)
2060	311	5,435	860	(2)	4,168	(2)	(2)	3,582	(2)	(2)	1,910	(2)
Trust fund is projected to be first exhausted in:	1983	(4)	1983	1983	(4)	1983	1983	(4)	1983	1983	(4)	1983

[1]Between -0.5 percent and zero.

[2]The fund is projected to be exhausted and not to recover before the end of the projection period.

[3]Between zero and 0.5 percent.

[4]The fund is not projected to be exhausted within the projection period.

Note: The ratios shown after the year in which a given fund is projected to be exhausted are theoretical and are shown for informational purposes only. In addition, the ratios for the total of the OASI and DI Trust Funds after 1982 are theoretical, because under the current law after 1982, the assets of one fund cannot be borrowed by another fund. The money assumed to be borrowed by the OASI Trust Fund in December 1982 is assumed to be repaid in 1992 under Alternative I, in 1998 under Alternative II-A, and not at any time in the long-range projection period under Alternatives II-B and III, although interest is assumed to be paid on a current basis. The assets used to compute the fund ratios are the gross assets, before taking into account the loans which occurred in 1982. If that had been done (i.e., considering the net assets), the OASI fund ratios would have been smaller, and the DI and HI fund ratios would have been larger.

Note: These estimates do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). If this had been done, the fund ratios would have been slightly higher.

Source: Table 32 in 1982 OASDI Trustees Report.

Such assumptions for productivity gains and the related linkage factors have been used, as a subsidiary procedure, to obtain estimates of the Gross National Product. Then, the long-range OASDI costs have then been expressed as a percentage of GNP. However, for the purpose of planning the financing of the OASDI program, by far the most important and critical measure is the relationship with taxable earnings, because the tax rates which finance the program are applied to such earnings.

The most important linkage factors between real-wage growth and productivity are the following: (1) relative growth of nontaxable fringe benefits as a proportion of total compensation, (2) the average number of hours worked per week, and (3) the average number of weeks worked per year. In the intermediate cost estimate (Alternative II-B), when GNP was estimated from the primary assumptions as to real-wage differentials, the result of the linkages was an ultimate (1992 and after) rate of productivity gains of 2.2% per year. This figure was derived from the real-wage differential of 1.5% per year by increasing it by .4% for the relative annual growth of fringe benefits, by .2% for the average number of hours worked per week, and by .1% for the average number of weeks worked per year (the net effect of other linkage factors than the three which were used was considered to be negligible).

Consideration of these two figures can lead to greatly different conclusions. On the one hand, it could be argued that the difference of .7% between productivity gains and real-wage growth is too large and that,

therefore, the real-wage differential used should be higher than 1.5% -- which would produce a considerably more favorable financial picture for the OASDI program than is currently estimated. On the other hand, it could be argued that the assumed ultimate productivity rate of 2.2% is too high and that then either (1) the several linkage factors are overstated, and the real-wage differential of 1.5% is satisfactory, or (2) the linkage factors are appropriate, but the real-wage differential should be lower than 1.5% -- which would produce a considerably less favorable financial picture for the OASDI program than is currently estimated.

The estimates of GNP that have been derived from the basic actuarial cost estimates expressed as percentages of taxable payroll can be used to compare the cost of the OASDI system with GNP. According to the intermediate cost estimate, such cost is currently about 5.2% of GNP and will decrease slowly for the next 20 years, reaching a low of about 4.4%. It will increase to 6.1% in 2030, and then again decline slowly, to about 5.5% at the end of the 75-year valuation period.

Under the pessimistic estimate, the cost of the OASDI program as a percentage of GNP remains relatively level at slightly more than 5% for the next 25 years, but it continuously increases thereafter to about 8.6% at the end of the valuation period. On the other hand, under the optimistic cost estimate (Alternative I), such ratio decreases slowly in the next few years, reaching a minimum of slightly less than 4% of GNP after 20 years and then slowly rises to

somewhat more than 5% in the 2020s; thereafter, it decreases to somewhat less than 4½% ultimately.

FINANCIAL STATUS OF HI TRUST FUND

This section will briefly examine the financial status of the HI Trust Fund in past years, its current status, and its outlook over both the short range and the long range. Also considered will be the combined cost rates for the OASDI and HI programs over the 75-year OASDI valuation period.

Past Operations

The balance of the HI Trust Fund has built up steadily over the years and was almost $21 billion at the end of October 1982 (see Table 1). At times (such as in 1970-72 and 1975-77), the balances were relatively level, as a result of the offsetting effects of periodic increases in the tax rates and the continuous increases in hospital costs. Since 1970, the trust-fund ratio for the HI program has generally been between 50% and 70% (see Table 2).

During December 1982, the HI Trust Fund loaned a significant amount to the OASI Trust Fund (for the reasons described earlier). Such loans are, of course, part of the assets of the HI Trust Fund, even though they are not immediately available to meet outgo, and should be so considered in analyses of its financial condition.

Short-Range Cost Situation

Under the intermediate cost estimate, the balance in the HI Trust Fund is estimated to increase for several years -- in large part because of the tax-rate increase in 1981 and the increases that are scheduled for 1985 and 1986. However, under this estimate, beginning in 1988, the balance will begin to fall, and in 1991 it will be exhausted.10/ Under the pessimistic cost estimate, the fund balance will remain relatively level during 1983-86, but will then decrease rapidly and will be exhausted in 1988.

Long-Range Cost Situation

Table 8 compares the estimated cost rates of the HI program with the combined employer-employee tax rates over the next 75 years, according to the intermediate cost estimate.11/ After the relatively favorable situation in the next few years, the cost rate increasingly exceeds the tax rate. About 50 years from now, the differential is somewhat more than 8% of taxable payroll -- or, in other words, the cost rate at that time is almost four times as high as the combined employer-employee tax rate. In the 25-year valuation period used for the HI program, the excess of the cost rate over the tax rate is about 1½% of taxable payroll.

Table 6 presents the actuarial balances of the HI program over its 25-year valuation period for the several alternative cost estimates. The actuarial

Table 8

ESTIMATED COST RATES OF HI AND OASDI-HI PROGRAMS UNDER ALTERNATIVE II-B AND COMPARISON WITH TAX RATES, 1986-2055*
(as percent of taxable payroll)

Calendar Year	HI Program			OASDI-HI Program		
	Cost Rate a/	Tax Rate b/	Difference c/	Cost Rate	Tax Rate b/	Difference c/
1982	2.97%	2.60%	-.37%	14.75%	13.40%	-1.35%
1985	2.74	2.70	-.04	14.44	14.10	-.34
1990	3.51	2.90	-.61	15.15	15.30	+.15
1995	4.47	2.90	-1.57	15.89	15.30	-.59
2000	5.38	2.90	-2.48	16.41	15.30	-1.11
2005	6.29	2.90	-3.39	17.24	15.30	-1.94
2010	7.20	2.90	-4.30	18.73	15.30	-3.43
2015	7.94	2.90	-5.04	20.76	15.30	-5.46
2020	8.89	2.90	-5.99	23.33	15.30	-8.03
2025	9.93	2.90	-7.03	25.90	15.30	-10.60
2030	10.76	2.90	-7.86	27.59	15.30	-12.29
2035	11.17	2.90	-8.27	28.19	15.30	-12.89
2040	11.29	2.90	-8.39	28.09	15.30	-12.79
2045	11.21	2.90	-8.31	27.87	15.30	-12.57
2050	11.19	2.90	-8.29	27.91	15.30	-12.61
2055	11.17	2.90	-8.27	27.98	15.30	-12.68
Averages						
1982-2006	4.34	2.86	-1.48	15.71	14.87	-.84
2007-31	8.78	2.90	-5.88	22.86	15.30	-7.56
2032-56	11.19	2.90	-8.29	28.00	15.30	-12.70
1982-2056	8.10	2.89	-5.21	22.19	15.16	-7.03

a/ These cost rates do not include any allowance for building up and maintaining the trust-fund ratio at 50% (which would require an additional .10% of taxable payroll in 1982-2006).

b/ For employer and employee combined.

c/ Tax rate minus cost rate. Positive differences are referred to as cash-flow surpluses, and negative differences as deficits.

NOTE: These estimates for OASDI do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), but those for HI do take this legislation into account. If this had been done, the cost rates for OASDI-HI would have been slightly lower.

SOURCE: Table 27 of the 1982 OASDI Trustees Report and Table 8 of the 1982 HI Trustees Report (extended beyond 2005 by Health Care Financing Administration under assumption that, then, hospital costs rise at the same rate as wages), in all cases reduced to allow for the effect of P.L. 97-248 (a reduction of about 10½% in all years after 1982).

* See views of Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper as to the undesirability of cost estimates for the HI program going further than 25 years into the future, in Chapter 4.

imbalance of about 1½% of taxable payroll according to the intermediate cost estimate can be compared with a figure of about 3% under the pessimistic estimate (after allowance has been made in each case for the effect of the Tax Equity and Fiscal Responsibility Act of 1982, whose effect is not included in Table 6) -- or, similarly, of about ½% of taxable payroll under the more optimistic cost estimate.

Cost Rates for Combined OASDI-HI Programs

Table 8 shows the year-by-year cost rates and combined employer-employee tax rates on a year-by-year basis for the OASDI and HI programs combined, according to the intermediate cost estimate. In almost all years in the 75-year period considered, the cost rate exceeds the tax rate -- and by increasing amounts following 1990. This deficit levels off at about 12½% of taxable payroll, beginning some 50 years hence. In this ultimate situation, the cost rate is about 80% higher than the combined employer-employee tax rate.

FINANCIAL STATUS OF SMI TRUST FUND

This section will examine briefly the financial status of the SMI Trust Fund in past years and its current status. No discussion will be given as to its long-range future outlook, because its financing basis is essentially on a "one-year term" basis, and its benefit provisions are not automatically adjusted

for changing economic conditions -- as are many of the provisions of the OASDI and HI programs. In the past, some of the benefit provisions of the SMI program have been adjusted on an ad hoc basis.

The balance in the SMI Trust Fund increased from a relatively small amount in 1970 to almost $6 billion at present (see Table 1). As of June 30, 1981, the total assets of the SMI Trust Fund amounted to $3.8 billion, as compared with estimated liabilities for the cost of the benefits incurred in the past and still payable (but then unpaid) and the associated administrative expenses of $4.0 billion. This small deficiency of $200 million represented only 1% of the estimated total incurred expenditures for the following year. It is estimated that, as of June 30, 1982, the assets on hand exceeded the incurred liabilities by about $800 million, or 4% of the estimated total incurred expenditures for the next 12 months.

Accordingly, it can properly be stated that the actuarial status of the SMI Trust Fund in recent years and currently is satisfactory under any standard considered (i.e., both on a cash basis and, more importantly, on an accrual basis).

FOOTNOTES

1/ For example, non-insured persons who were aged 65 or over at the inception of the HI program (who were "blanketed-in" for such benefits) and certain persons who were aged 72 or over before the mid-1970s (who were "blanketed-in" for monthly benefits at a uniform rate). (Not included in this context as payments from the General Fund of the Treasury are the matching employer contributions or similar payments for members of the armed forces and certain Federal civilian employees, because they are more properly considered as employer taxes.)

2/ Occasionally, a retrospective fund ratio is used, which is based on the outgo in the preceding 12 months, so as to utilize actual data for both elements.

3/ Actually, slightly less than such amount would be sufficient, because the payroll-tax receipts in the first few days of the month would be available.

4/ The HI program has financial patterns within the calendar year. Outgo tends to be lower in the early part of the year, because of the effect of the initial deductible and because of the effect of the increasing trend of hospital costs over the years. There are other offsetting factors such as higher hospital utilization in winter months than in the remainder of the year. However, any seasonal outgo effects are more than offset by

the relatively larger income in the early months of the year than in the later months, for the same reasons as is the case for the OASDI Trust Funds.

5/ Adjustment is made for such factors as that the self-employed pay less than the combined employer-employee tax rate.

6/ Such consideration of the two trust funds combined can be interpreted as there being either (1) permanent interfund borrowing permitted or (2) a reallocation of the OASDI tax rate which would increase the portion thereof assignable to the OASI Trust Fund. It would seem that, because the DI program appears to have more than sufficient financing, not only in the recent past, but also for the long-range future, such a reallocation of the OASDI tax rate is both feasible and desirable.

7/ Such analysis is performed by considering the combined OASDI Trust Funds. This is done because it may be desirable that the estimated future overfinancing of the DI program shown by the current cost estimates should be diverted to the OASI program (by increasing the proportion of the OASDI tax rates which is allocated to OASI), so that they are on a comparable financing basis.

8/ At that time, those reaching retirement age will be the survivors of those born in the late 1920s and the 1930s, when the numbers of births per year

were lower than before 1925 or after 1939. At the same time, the post-World War II baby boom population will be at the working ages.

9/ This actuarial deficiency has currently been revised downward -- to 1.80% of taxable payroll -- when account was taken of (a) the actual benefit increase for June 1982 (which was slightly smaller than that estimated in the Trustees Report) and (b) the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

10/ It should be noted that the financial outlook for the HI Trust Fund as discussed here is somewhat more favorable than shown in the 1982 HI Trustees Report. This is the result of including in the data discussed here the effect of the Tax Equity and Fiscal Responsibility Act of 1982, which significantly improved the short-run financial situation of the HI program (by covering Federal employees and restricting the reimbursements somewhat).

11/ As previously mentioned, such long-range estimates are more subject to variation for the HI program than for the OASDI program. The valuation period used for the HI system in the 1982 HI Trustees Report is 25 years.

Appendix K

Old-Age, Survivors, and Disability Insurance and Hospital Insurance Programs (Revised Version)

Actuarial Cost Estimates for OASDI and HI and for Various Possible Changes in OASDI

and

Historical Data for OASDI and HI

National Commission on Social Security Reform

Washington, D.C.
December 1982

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NOTE: Pages are numbered successively within each lettered section for the various possible changes.

INTRODUCTION

This background book was originally prepared for the meeting of the National Commission on Social Security Reform on November 11-13, 1982. The present version has been revised to reflect certain additional information that became available after the meeting and to correct a few minor errors.

It presents actuarial cost estimates for various possible changes in the Old-Age, Survivors, and Disability Insurance program. The changes presented are intended to represent an objective selection which covers all of the major options open for resolving the short-range and long-range financing problems of the OASDI program. Quite naturally, there are many permutations and combinations of the several options -- varying by effective dates, benefit percentages, normal retirement ages, etc. However, it is believed that the changes presented are reasonably representative. The effect of different proposals than these can usually be seen from the data presented here.

Also presented are a number of tables which show the past experience of the OASDI and Hospital Insurance programs and their estimated future experience. Attention is particularly directed to Tables 5 and 10, which address the short-range problem, and to Tables 6, 7, and 8, which address the long-range problem.

The various cost estimates presented were prepared in most cases by the Office of the Actuary, Social Security Administration.

The long-range cost effects of the various possible changes considered are expressed as percentages of taxable payroll -- which makes them comparable with payroll tax rates. For example, a long-term cost of +.38% of taxable payroll means that, if this were to be financed by a level tax rate in all future years, then a combined employer-employee rate of .38% would be required. This is done rather than expressing them in terms of dollars, because of the difficulty of expressing costs over long future periods of years in such terms when assumptions of continuously rising wages and prices are involved. The taxable payroll in 1982 is about $1.4 trillion (so that 1% of payroll would be $14 billion).

Notes:

(1) Increased cost is indicated by a plus (+) sign.
(2) Cost reduction is indicated by a minus (-) sign.
(3) All estimates are on the basis of calendar years.
(4) All estimates are for the OASDI Trust Funds only, unless otherwise indicated.
(5) A "0" means that the cost effect for the year is zero, while a ".0" means that it is less than $50 million.
(6) References to "long-term" mean the years 1982-2056.
(7) Long-term estimates are on the basis of the Alternative II-B assumptions of the 1982 OASDI Trustees Report.
(8) When all of the short-term cost figures are zero, no short-term cost table is presented.

SUMMARY OF SECTION A - COVERAGE

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
A-1	Cover all Federal, State and local, and nonprofit employees.	-$110	-$117	-.53%
A-2	Cover all Federal and nonprofit employees.	-62	-68	-.31
A-3	Cover all nonprofit employees and all new Federal employees.	-19	-21	-.30
A-4	Cover all new State and local employees.	-13	-14	-.24
A-5	Prohibit withdrawal from coverage by State and local governments and by nonprofit organizations by not permitting notices to be filed after 1983.	+50	+53	n.a.
A-6	Prohibit withdrawal from coverage by State and local governments and by nonprofit organizations by providing that any notice of termination filed after 9/30/82 is invalid.	n.a.	n.a.	n.a.
A-7	Eliminate windfall benefits for persons with pensions from noncovered employment.	*	*	-.09
A-8	Cover all nonprofit employees, all new Federal employees, and all present Federal employees with less than 5 years of service.	-26	-29	-.31

Note: Long-term costs are presented as a percentage of taxable payroll, for OASDI only.

n.a. = Not available.

* Less than $500 million savings.

A. COVERAGE

Present law. OASDI coverage now applies to almost all types of employment. The principal types of employment not covered are the following: (1) employees of nonprofit organizations which have not elected such coverage (about 15% of such employees), (2) permanent civilian employees of the Federal government, and (3) employees of State and local governments which have not elected coverage (about 30% of such employees).

Options.

A-1 Extend coverage to all Federal employees, State and local employees, and employees of nonprofit organizations*, effective in 1984.**

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-14.0	-16.7	-18.0	-19.3	-20.6	-22.0	-110.5
III, OASDI	0	-14.2	-17.0	-18.7	-20.5	-22.4	-24.4	-117.2
II-B, HI	0	-1.6	-2.0	-2.3	-2.5	-2.7	-2.9	-14.2
III, HI	0	-1.6	-2.0	-2.4	-2.6	-2.8	-3.1	-14.5

25-Year Cost, OASDI: -.70% of taxable payroll
50-Year Cost, OASDI: -.64% of taxable payroll
Long-Term Cost, OASDI: -.53% of taxable payroll

25-Year Cost, HI: -.25% of taxable payroll

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* Such organizations which have religious principles against any form of government insurance would be permitted to opt out on a permanent basis.

** If the effective date were later than 1984, the long-term cost effect would be about the same as shown. The short-term cost effects would be zero, of course, for years before the effective date and about the same as shown for the effective year and thereafter.

A-2 Extend coverage to all Federal employees and all employees of nonprofit organizations*, effective in 1984.**

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-8.1	-9.2	-9.9	-10.7	-11.4	-12.2	-61.5
III, OASDI	0	-8.4	-9.8	-10.7	-11.8	-12.9	-14.1	-67.6
II-B, HI	0	-.2	-.3	-.3	-.3	-.3	-.4	-1.8
III, HI	0	-.2	-.3	-.3	-.3	-.4	-.4	-1.9

25-Year Cost, OASDI: -.40% of taxable payroll
50-Year Cost, OASDI: -.37% of taxable payroll
Long-Term Cost, OASDI: -.31% of taxable payroll

25-Year Cost, HI: -.02% of taxable payroll

A-3 Extend coverage to all employees of nonprofit organizations* and all new Federal employees, effective in 1984.**

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-1.2	-2.1	-2.7	-3.4	-4.2	-5.0	-18.6
III, OASDI	0	-1.2	-2.2	-2.9	-3.7	-4.7	-5.8	-20.6
II-B, HI	0	-.2	-.3	-.3	-.3	-.3	-.4	-1.8
III, HI	0	-.2	-.3	-.3	-.3	-.4	-.4	-1.9

25-Year Cost, OASDI: -.25% of taxable payroll
50-Year Cost, OASDI: -.34% of taxable payroll
Long-Term Cost, OASDI: -.30% of taxable payroll

25-Year Cost, HI: -.02% of taxable payroll

A-4 Extend coverage to all new State and local employees, effective 1984.**

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-.3	-1.1	-1.8	-2.6	-3.3	-4.2	-13.3
III, OASDI	0	-.3	-1.0	-1.8	-2.6	-3.5	-4.5	-13.7
II-B, HI	0	-.1	-.2	-.5	-.7	-.9	-1.1	-3.5
III, HI	0	-.1	-.2	-.5	-.7	-.9	-1.1	-3.5

25-Year Cost, OASDI: -.23% of taxable payroll
50-Year Cost, OASDI: -.28% of taxable payroll
Long-Term Cost, OASDI: -.24% of taxable payroll

25-Year Cost, HI: -.23% of taxable payroll

A-5 Prohibit opting out of coverage of employees of State and local governments and employees of nonprofit organizations by not permitting withdrawal notices to be filed after 1983.

Estimate	Cost (in billions of dollars)*** 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	+.5	+4.0	+9.6	+11.2	+12.1	+13.1	+50.5
III, OASDI	0	+.5	+4.0	+9.8	+11.6	+12.6	+14.1	+52.6

*** It is estimated that such a provision would result in increased costs over the short run, because the actuarial cost estimates assume that many more entries would feel constrained to withdraw at once, before they would no longer have the opportunity to do so. Long-term cost data are not available, due to the diverse effects possible.

A-6 Prohibit opting out of coverage of employees of State and local governments and employees of nonprofit organizations by providing that any notice of termination filed after September 30, 1982 is invalid.****

A-7 Eliminate "windfall" old-age and disability benefits for persons with pensions from noncovered employment, effective for those becoming first eligible after 1983 (in the absence of changes which would result in universal coverage being applicable).

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.0	-.0	-.0	-.0	-.1	-.1	-.2
III	0	-.0	-.0	-.0	-.0	-.1	-.1	-.2

25-Year Cost: -.00% of taxable payroll
50-Year Cost: -.03% of taxable payroll
Long-Term Cost: -.09% of taxable payroll

A-8 Extend coverage to all employees of nonprofit organizations*, to all new Federal employees, and to all present Federal employees with less than 5 years of service, as of January 1, 1984.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	2.4	3.2	4.0	4.7	5.5	6.3	26.2
III	0	2.5	3.5	4.3	5.3	6.2	7.3	29.0

25-Year Cost: -.25% of taxable payroll
50-Year Cost: -.36% of taxable payroll
Long-Term cost: -.31% of taxable payroll

**** Cost estimates for the savings involved are not available, because the actuarial cost estimates for the present program assume that no withdrawals will occur. Obviously, this proposal will have significant cost savings if it is enacted.

SUMMARY OF SECTION B - TAX RATES

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
B-1	Accelerate the 1990 OASDI tax to 1984.	-$133	-$135	-.09%
B-2	Accelerate the 1985 OASDI tax to 1984.	-10	-10	-.01
B-3	Accelerate the 1985 and 1986 OASDI-HI tax rates to 1984.	-19	-18	-.02
B-4	Increase the OASDI-HI tax rate for self-employed persons to the combined employer-employee rate.	-18	-17	-.19
B-5	Reduce the 1990 OASDI tax rate from 6.2% to 6.0% for 1990-2009.	0	0	+.11
B-6	Move the 1985 OASDI tax rate to 1984; for 1985-87, such rate would be mid-way between the 1985 and 1990 tax rates in present law; for 1988 and after, such rate would be the 1990 rate in present law.	-86	-89	-.05
B-7	Increase the OASDI tax rate on employers and employees each by 1% in 2020.	0	0	-.99
B-8	Increase the OASDI tax rate on employers and employees each by 1.25% in 2030.	0	0	-.90
B-9	Remove the taxable earnings base for employers only.	-41	-42	-.56
B-10	Set a limit of 25% of total compensation as to the amount of fringe benefits not subject to payroll tax. Tax-exempt fringes in excess of such limit would be subject to OASDI-HI tax on only the employer and would not be counted as creditable wages for benefit purposes.	n.a.	n.a.	-.73
B-11	Maintain a constant OASDI tax rate on total compensation, effective 1990.	0	0	-1.56
B-12	Make wages deferred under Section 401(k) (salary reduction plans) be subject to OASDI-HI tax.	n.a.	n.a.	n.a.

n.a. = Not available.

B. TAX RATES

Present law. See Table 2 for schedule of OASDI-HI tax rates under present law.

Options.

B-1 Accelerate the 1990 OASDI tax rate to 1984.*

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-25.1	-18.7	-19.7	-21.3	-23.1	-24.9	-132.8
III	0	-24.3	-18.4	-19.8	-21.8	-24.1	-26.4	-134.8

25-Year Cost: -.26% of taxable payroll
50-Year Cost: -.13% of taxable payroll
Long-Term Cost: -.09% of taxable payroll

B-2 Accelerate the 1985 OASDI tax rate to 1984.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-9.4	-.6	0	0	0	0	-10.0
III	0	-9.1	-.6	0	0	0	0	-9.7

25-Year Cost: -.02% of taxable payroll
50-Year Cost: -.01% of taxable payroll
Long-Term Cost: -.01% of taxable payroll

* In conjunction with this proposal, a portion of the OASDI-HI tax could be made deductible for income-tax purposes or a tax credit provided -- the portion would be such that the reduction in personal income taxes would equal the additional OASDI-HI taxes paid by workers and employers. Thus, there would be no effect on the overall Federal budget deficit.

B-3 Accelerate the 1985 and 1986 OASDI-HI tax rates to 1984.**

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-9.4	-.6	0	0	0	0	-10.0
III, OASDI	0	-9.1	-.6	0	0	0	0	-9.7
II-B, HI	0	-4.9	-3.8	-.2	0	0	0	-8.8
III, HI	0	-4.7	-3.8	-.2	0	0	0	-8.7

25-Year Cost, OASDI: -.02% of taxable payroll
50-Year Cost, OASDI: -.01% of taxable payroll
Long-Term Cost, OASDI: -.01% of taxable payroll

25-Year Cost, HI: -.02% of taxable payroll

B-4 Increase the OASDI-HI tax rate for self-employed persons to the combined employer-employee rate, effective in 1984.***

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-.9	-2.8	-3.1	-3.4	-3.6	-3.8	-17.5
III, OASDI	0	-.8	-2.6	-3.0	-3.3	-3.6	-3.9	-17.3
II-B, HI	0	-.4	-1.3	-1.5	-1.7	-1.8	-2.0	-8.7
III, HI	0	-.4	-1.2	-1.5	-1.7	-1.8	-2.0	-8.6

25-Year Cost, OASDI: -.15% of taxable payroll
50-Year Cost, OASDI: -.17% of taxable payroll
Long-Term Cost, OASDI: -.19% of taxable payroll

25-Year Cost, HI: -.14% of taxable payroll

** The figures shown assume that the taxes resulting from the 1986 increase in the HI portion of the tax rate would go into the HI Trust Fund. It would be possible to keep the HI tax rate under the proposal at the same level in 1984-85 as under present law and to reallocate the increase in the OASDI-HI rate entirely to the OASDI Trust Funds; then, the cost effect for the OASDI Trust Funds would be approximately the sum of the figures shown for OASDI and HI.

*** In conjunction with this proposal, a refundable tax credit for the self-employed equal to 25% of the self-employment tax could be provided. Alternatively, 50% of the payroll tax paid by the self-employed could be made tax deductible as a business expense.

B-5 Reduce the 1990 OASDI tax rate from 6.2% on the employer and employee, each, to 6.0% for 1990-2009. Return to the 6.2% rate in 2010.

25-Year Cost: +.27% of taxable payroll
50-Year Cost: +.16% of taxable payroll
Long-Term Cost: +.11% of taxable payroll

B-6 Move the 1985 OASDI tax rate to 1984; increase the 1985-87 OASDI tax rate to mid-way between the 1985 and 1990 tax rates in present law; and for 1988 and after, increase the OASDI tax rate to the tax rate for 1990 in present law.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-9.4	-9.1	-9.8	-10.7	-22.5	-24.9	-86.4
III	0	-9.1	-9.0	-9.9	-10.9	-23.4	-26.4	-88.7

25-Year Cost: -.16% of taxable payroll
50-Year Cost: -.08% of taxable payroll
Long-Term Cost: -.05% of taxable payroll

B-7 Increase OASDI tax by 1% on employers and employees each, effective in 2020.

Long-Term Cost: -.99% of taxable payroll

B-8 Increase OASDI tax rate by 1.25% on employers and employees each, effective in 2030.

Long-Term Cost: -.90% of taxable payroll

B-9 Remove the taxable earnings base for employers only, effective in 1984.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-5.9	-6.7	-6.8	-7.0	-7.2	-7.3	-40.9
III, OASDI	0	-5.8	-6.7	-6.8	-7.2	-7.5	-7.6	-41.6
II-B, HI	0	-1.5	-1.6	-1.8	-1.8	-1.9	-1.9	-10.5
III, HI	0	-1.5	-1.6	-1.8	-1.8	-2.0	-2.0	-10.7

25-Year Cost, OASDI: -.43% of taxable payroll
50-Year Cost, OASDI: -.50% of taxable payroll
Long-Term Cost, OASDI: -.56% of taxable payroll

25-Year Cost, HI:

B-10 Set a limit of 25% of total compensation as the amount of non-taxable fringe-benefit compensation that can be provided without being subject to the payroll tax. Tax-exempt fringes in excess of the 25% limit would become subject to OASDI-HI tax only for the employer and would not be counted as creditable wages for benefit purposes, effective in 1985.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI								
III, OASDI								
II-B, HI								
III, HI								

25-Year Cost, OASDI: -.07% of taxable payroll
50-Year Cost, OASDI: -.32% of taxable payroll
Long-Term Cost, OASDI: -.73% of taxable payroll

25-Year Cost, HI:

B-11 Maintain, in effect, constant OASDI tax rate on total compensation, effective in 1990. If the "cash earnings plus taxable fringe benefits" portion of total compensation decreases, the tax rate on covered wages would increase so as to maintain a constant tax rate on total compensation, using 1990 as the base year.

25-Year Cost:	-.25% of taxable payroll
50-Year Cost:	-.87% of taxable payroll
Long-Term Cost:	-1.56% of taxable payroll

B-12 Make wages deferred under Section 401(k) of the Internal Revenue Code (salary reduction plans) be subject to the OASDI-HI tax.

Long-Term Cost: Cannot be estimated, because no experience data are available. However, the loss of revenues to the OASDI and HI Trust Funds, without this change, may become substantial in future years.

SUMMARY OF SECTION C - ALTERNATIVE SOURCES OF REVENUES

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
C-1	Reallocate 50% of HI tax rate to the OASDI Trust Funds.	-$174	-$177	-1.42%
C-2	Same as C-1, except that effective date is 1990.	0	0	-1.30
C-3	Allow OASDI Trust Funds to borrow from General Fund whenever the combined fund ratio is below 15%.	75*	201*	n.a.
C-4	Impose a new inheritance tax earmarked for OASI Trust Fund.	-22	-22	n.a.
C-5	Impose a surtax on gasoline, earmarked for OASI Trust Fund.	-23	-23	-.02
C-6	Impose a 5% surcharge on individual income tax, earmarked for OASI Trust Fund.	-134	-134	-.09
C-7	Increase excise tax on alcohol and tobacco, earmarked for DI or HI Trust Funds.	-14	-14	-.01
C-8	Credit OASDI Trust Funds with total unreimbursed cost for military-service wage credits based on service before 1957.	-3	n.a.	.00
C-9	Credit OASDI Trust Funds with excess of past benefit payments over past reimbursements for military-service wage credits based on service before 1957.	**	**	.00
C-10	Pay OASDI taxes for current military-service gratuitous wage credits.	-2	-2	-.01
C-11	Credit OASDI Trust Funds for OASDI checks that have gone uncashed for 1 or more years, effective in 1983.	-1	-1	.00
C-12	Provide that OASDI administrative expenses be paid from general revenues.	-19	-19	-.15
C-13	Provide a general-revenue contribution, in a given month, equal to excess of the unemployment rate over 6%, times total OASDI taxes.	-16	-30	-.05

* Amount borrowed from General Fund in period.
** Less than $500 million.
n.a. = Not available.

C. ALTERNATIVE SOURCES OF REVENUES

Present law. Income to the OASDI and HI Trust Funds comes from the payroll tax which is paid by employers, employees, and the self-employed. (In addition, there are certain payments to the trust funds from the General Fund of the Treasury to cover the cost of certain transitional benefits for closed groups of persons and military-service wage credits.)

Options.

C-1 Reallocate 50% of the employer-employee HI tax rates to the OASDI Trust Funds, and make up this loss to the HI Trust Fund by payments from the General Fund of the Treasury, effective in 1984 (with corresponding treatment for the self-employed rate).

	OASDI Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-20.4	-24.4	-28.5	-30.9	-33.5	-36.1	-173.8
III	0	-19.7	-24.1	-28.6	-31.7	-34.9	-38.3	-177.3

25-Year Cost: -1.33% of taxable payroll
50-Year Cost: -1.39% of taxable payroll
Long-Term Cost: -1.42% of taxable payroll

C-2 Same as Option C-1, except effective in 1990.

25-Year Cost: -.99% of taxable payroll
50-Year Cost: -1.23% of taxable payroll
Long-Term Cost: -1.30% of taxable payroll

C-3 Allow the OASDI Trust Funds to borrow from the General Fund of the Treasury whenever their combined balance (assuming interfund borrowing between them) is lower than 15% of the next year's outgo, effective in 1983. The amounts would be paid back to the General Fund, with interest, when the combined OASDI Trust Fund ratios reach 50%. If necessary, the OASDI tax rate would be increased to assure pay-back.

	Amount Borrowed from General Fund in Year (in billions of dollars)*							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	22	15	7	8	8	8	7	75
III	26	26	20	25	30	34	40	201

C-4 Impose a new inheritance tax, which would apply only if there is no surviving spouse. It would exclude the first $100,000 in the estate. The next $100,000 would be taxed at a 10% rate, and the third $100,000 would be taxed at a 15% rate, effective for 1985. After 1989, the thresholds for taxation would be indexed by the CPI increases. The proceeds of the tax would be earmarked for the OASI Trust Fund.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
**	0	0	-3.6	-3.9	-4.3	-4.7	-5.1	-21.6

Long-Term Cost: Cannot be determined.

C-5 Impose a surcharge of 3 cents a gallon on gasoline, which would be earmarked for the OASI Trust Fund, effective for 1983-89.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
**	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-23.1

Long-Term Cost: -.02% of taxable payroll

C-6 Impose a 5% surcharge on individual income taxes in 1983-89, the proceeds from which would be earmarked for the OASI Trust Fund.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
**	-14.9	-15.8	-17.3	-18.8	-20.6	-22.4	-24.4	-134.2

Long-Term Cost: -.09% of taxable payroll

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* Interest that would be accumulating on the amounts borrowed is not shown.

** Only one estimate is available. It is based on data provided by the Joint Committee on Taxation and the Congressional Budget Office.

C-7 Impose increased excise taxes on alcohol and tobacco in 1983-89 -- increases of 25% over present rates. The proceeds would be earmarked for either the DI or HI Trust Fund.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
**	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-14.0

Long-Term Cost: -.01% of taxable payroll

C-8 Credit to the OASDI Trust Funds, as a lump sum, the present value of the additional cost of OASDI benefits for those military-service wage credits based on service before 1957, effective in 1983.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-5.8	+.6	+.5	+.5	+.5	+.5	+.5	-2.6

Long-Term Cost: Negligible

C-9 Credit to the OASDI Trust Funds, as a lump sum, the excess of past benefit payments over past reimbursement payments (including interest) for the cost of additional OASDI benefits for those military-service wage credits based on service before 1957.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-.9	+.1	+.1	+.1	+.1	+.1	+.1	-.3
III	-.9	+.1	+.1	+.1	+.1	+.1	+.1	-.3

Long-Term cost: Negligible

*** Only one estimate is available. Any such estimate is subject to a wide variation, because it depends greatly on future conditions.

C-10 Pay OASDI taxes for current military-service gratuitous wage credits as the service is rendered, effective in 1984.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.3	-.3	-.3	-.3	-.3	-.3	-1.6
III	0	-.3	-.3	-.3	-.3	-.3	-.3	-1.6

Long-Term Cost: Negligible

C-11 Credit to the OASDI Trust Funds the OASDI checks which have not been cashed for at least 1 year, effective in 1983.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-.3	-.0	-.0	-.0	-.0	-.0	-.0	-.5
III	-.3	-.0	-.0	-.0	-.0	-.0	-.0	-.5

Long-Term Cost: Negligible

C-12 Provide that the administrative expenses of the OASDI program be paid from the General Fund of the Treasury.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-2.2	-2.3	-2.5	-2.6	-2.8	-2.9	-3.1	-18.5
III	-2.2	-2.3	-2.5	-2.7	-2.9	-3.1	-3.3	-18.9

25-Year Cost: -.13% of taxable payroll
50-Year Cost: -.14% of taxable payroll
Long-Term Cost: -.15% of taxable payroll

C-13 Provide a payment from the General Fund of the Treasury equal, for each month, to (a) the excess (if any) of the unemployment rate over 6%, multiplied by (b) the total OASDI tax receipts, effective in 1984.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-2.8	-3.5	-3.2	-2.8	-2.2	-1.5	-16.1
III	0	-5.0	-5.7	-5.4	-5.2	-4.7	-4.1	-30.1

25-Year Cost: -.07% of taxable payroll
50-Year Cost: -.06% of taxable payroll
Long-Term Cost: -.05% of taxable payroll

SUMMARY OF SECTION D - COST-OF-LIVING ADJUSTMENTS

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
D-1	Delay COLA by one month per year for 3 years.	-$20	-$31	-.14%
D-2	Delay the effective date for the cost-of-living adjustment for 3 months.	-23	-35	-.14
D-3	Provide for no COLA for 1983. Resume present procedure thereafter.	-94	-119	-.13
D-4	Provide guaranteed COLA of 4% for 1983 and 1984; thereafter, the COLA would equal the annual increase in wages, minus 1½ percentage points.	-100	-180	-.16
D-5	Provide guaranteed benefit increase of 4% or $14 (whichever is higher) for 1983 and 1984; Thereafter, the COLA would equal the annual increase in wages, minus 1½ percentage points.	-96	-176	-.15
D-6	Provide COLAs equal to 75% of what the benefit increases would be under present law.	-88	-128	-1.45
D-7	Provide COLAS equal to increase in the CPI, minus 2 percentage points.	-103	-113	-2.58
D-8	Provide COLA equal to present-law increase, minus 2 percentage points for 1983 and 1984; thereafter present-law procedure would resume.	-66	-72	-.07
D-9	Same as D-8 for 1983 and 1984; thereafter, COLAS would be equal to the annual increase in wages, minus 1½ percentage points.	-75	-97	-.11
D-10	Provide COLAs equal to annual percentage increase in wages, minus "X" percentage points. The value of "X" could be 1, 1½, or 2.	*	*	*
D-11	Provide COLAs based on lesser of increase in wages or prices, with a "catch-up" provision.	-1	-60	-.06
D-12	Provide COLAs based on lesser of increase in wages or prices, with no "catch-up" provision.	-4	-66	-.43

* Various alternatives are considered (see subsequent pages for details).

D. COST-OF-LIVING ADJUSTMENTS FOR BENEFITS IN PAYMENT STATUS

Present law. Benefits are increased each year when the annual increase in the Consumer Price Index (CPI) is 3% or more. The amount of the benefit increase is equal to the increase in the CPI from the first quarter of one year to the first quarter of the next year. The benefit increase is effective for June, and is first reflected in the check sent in early July.

Options.

D-1 Delay the cost-of-living adjustment by one month per year for 3 years, effective in 1983, so that, in 1985 and after, the benefit increase would be effective at the beginning of the fiscal year.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.0	-2.3	-3.4	-3.3	-3.3	-3.4	-3.5	-20.2
III	-1.2	-2.9	-4.8	-5.1	-5.5	-5.8	-6.1	-31.4

25-Year Cost: -.12% of taxable payroll
50-Year Cost: -.13% of taxable payroll
Long-Term Cost: -.14% of taxable payroll

D-2 Delay the effective date for the cost-of-living adjustment for 3 months, effective in 1983.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-3.0	-3.4	-3.4	-3.3	-3.3	-3.4	-3.5	-23.3
III	-3.6	-4.4	-4.8	-5.1	-5.5	-5.8	-6.1	-35.3

25-Year Cost: -.12% of taxable payroll
50-Year Cost: -.13% of taxable payroll
Long-Term Cost: -.14% of taxable payroll

D-3 Provide no cost-of-living adjustment for 1983.* Resume present-law benefit increases in 1984.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-6.2	-12.9	-13.8	-14.5	-15.0	-15.4	-15.7	-93.5
III	-7.3	-15.4	-16.8	-18.1	-19.3	-20.5	-21.5	-118.9

Long-Term Cost: -.13% of taxable payroll

D-4 Provide a guaranteed benefit increase of 4% for 1983 and 1984, regardless of the change in the CPI.* In 1985 and thereafter, the annual benefit increase would equal the annual percentage increase in wages, minus 1½ percentage points.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-2.9	-9.3	-14.0	-16.2	-18.1	-19.5	-20.4	-100.4
III	-4.0	-13.4	-22.1	-27.8	-32.8	-37.7	-42.3	-180.1

Long-Term Cost: -.16% of taxable payroll

D-5 Same as Option D-4, except that the benefit increase in 1983-84 would not be less than that resulting from an increase of $14 in the PIA.**

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-2.7	-8.8	-13.3	-15.5	-17.4	-18.8	-19.7	-96.2
III	-3.8	-12.9	-21.4	-27.1	-32.1	-37.0	-41.5	-175.8

Long-Term cost: -.15% of taxable payroll

* A parallel change could be made in the indexing of the bend points in the PIA benefit formula (which is based on wage changes). This would be done so as to prevent "notch" situations from occurring as between persons first becoming eligible in the year of the revised benefit increase and those first becoming eligible in the next year. Such a change would have relatively little cost effect in the short run, but would have a significant effect over the long run.

** The $14 increase would not be applicable for very low PIAs, which instead would have a 10% increase be applicable.

D-6 Provide benefit increases equal to 75% of what the benefit increases would be under present law (i.e., 75% of the CPI increase), effective in 1983.*

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.6	-5.0	-8.7	-12.5	-16.3	-20.1	-24.0	-88.2
III	-1.8	-6.0	-11.2	-17.1	-23.6	-30.5	-38.0	-128.2

Long-Term Cost: -1.45% of taxable payroll

D-7 Provide benefit increases equal to the increase in the CPI, minus 2 percentage points, effective in 1983.*

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.7	-5.2	-9.3	-13.9	-18.9	-24.2	-30.0	-103.2
III	-1.7	-5.3	-9.6	-14.7	-20.5	-27.1	-34.4	-113.3

Long-Term Cost: -2.58% of taxable payroll

D-8 Same as option D-7, except effective only for 1983-84.*

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.7	-5.2	-9.3	-11.8	-12.3	-12.7	-13.0	-66.1
III	-1.7	-5.3	-9.6	-12.5	-13.4	-14.3	-15.1	-72.0

Long-Term Cost: -.07% of taxable payroll

D-9 Same as Option D-8, except that benefit increases after 1984 would be based on annual percentage increases in wages, minus 1½ percentage points (instead of on annual CPI increases).*

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.7	-5.2	-9.3	-12.5	-14.3	-15.6	-16.5	-75.2
III	-1.7	-5.3	-9.6	-14.0	-18.2	-22.2	-26.3	-97.3

Long-Term Cost: -.11% of taxable payroll

D-10 Provide benefit increases equal to the annual percentage increase in wages, minus "X" percentage points, beginning in 1983.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
			Based on X Being 1%					
II-B	-1.1	-2.8	-3.8	-4.5	-4.8	-4.6	-3.9	-25.5
III	-2.6	-8.3	-13.9	-18.1	-21.3	-24.2	-26.8	-115.2

Long-Term Cost: +.68% of taxable payroll

			Based on X Being 1½%					
II-B	-1.5	-4.1	-6.1	-8.0	-9.6	-10.7	-11.5	-51.5
III	-3.0	-9.6	-16.3	-21.6	-26.2	-30.7	-35.1	-142.5

Long-Term Cost: -.09% of taxable payroll

			Based on X Being 2%					
II-B	-1.9	-5.4	-8.5	-11.4	-14.2	-16.8	-19.0	-77.2
III	-3.4	-10.9	-18.6	-25.1	-31.0	-37.0	-43.1	-169.1

Long-Term Cost: -.80% of taxable payroll

			Based on X Being .3% in 1983-85, 1% in 1986-88 and 1½% Thereafter***					
II-B	-.5	-.9	-.5	-.4	-.5	-.1	+.1	-2.8
III	-1.9	-6.4	-10.6	-13.9	-16.8	-19.5	-22.6	-91.7

Long-Term Cost: Negligible

			Based on X Being .3% in 1983-85, 1% in 1986-88, 1½% in 1989-2019, and 2% Thereafter					
II-B	-.5	-.9	-.5	-.4	-.5	-.1	+.1	-2.8
III	-1.9	-6.4	-10.6	-13.9	-16.8	-19.5	-22.6	-91.7

Long-Term Cost: -.38% of taxable payroll

*** These values of "X" approximate the real-wage differentials in the Alternative II-B estimate in the 1982 Trustees Report.

D-11 Provide benefit increases based on the lesser of the annual percentage increase in wages or the annual percentage increase in prices, beginning in 1983. Include a "catch-up" provision, so that in times of a healthy economy (when wages rise faster than prices), benefits will be increased by wages if they had previously been increased by less than the full CPI -- until any deficit relative to CPI rises is made up (so as to bring benefit levels up to the point where they are actually keeping up with inflation).****

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-.2	-.3	-.0	-.0	-.0	-.0	-.0	-.6
III	-1.7	-5.7	-9.2	-10.9	-11.2	-11.0	-10.2	-59.9

Long-Term Cost: -.06% of taxable payroll

D-12 Same as Option D-11, except that there would be no "catch-up" provision.****

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-.2	-.5	-.6	-.6	-.6	-.6	-.7	-3.8
III	-1.7	-5.7	-9.2	-11.0	-11.8	-12.6	-13.7	-65.7

Long-Term Cost: -.43% of taxable payroll

**** To further stabilize the financing of the program, this proposal could be combined with an automatic-adjustment mechanism for the payroll tax rate and/or payments (or loans) from the General Fund of the Treasury based on either the combined OASDI Trust Fund or the level of unemployment.

SUMMARY OF SECTION E - LEVEL OF PRIMARY BENEFITS

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
E-1	Increase "bend points" by 75% of the increase in wages until they are 80% of what they would have been under 100% wage indexing, effective 1984.	-$3	-$3	-1.08%
E-2	Same as E-1, except effective date is 1987.	*	*	-1.01
E-3	Same as E-1, except effective date is 2000.	0	0	-.80
E-4	Same as E-1, except effective date is 2010.	0	0	-.60
E-5	Same as E-1, except effective date is 2020.	0	0	-.37
E-6	Index "bend points" by 75% of increase in wages for 3 years, beginning 1987.	-1/4	-1/4	-.22
E-7	Change computation point for determining Average Indexed Monthly Earnings from age 62 to age 65.	-3	-3	-.25
E-8	Reduce percentages in PIA benefit formula gradually over time, by 10% relatively, effective in 1984.	-3	-3	-1.08
E-9	Same as E-8, except effective in 1990.	0	0	-.95
E-10	Same as E-9, except 5% reduction.	0	0	-.50
E-11	Same as E-9, except no reduction on first percentage and larger reductions on other two percentages.	0	0	-.95

* Savings of less than $500 million.

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E. LEVEL OF PRIMARY BENEFITS

Present law. The Primary Insurance Amount, which is the benefit payable to a worker retiring at age 65 (and also to a disabled worker) is determined from a formula based on Average Indexed Monthly Earnings. This formula involves three different percentages which are applied to different levels of the AIME (as separated by the "bend points"), so as to give relatively higher benefits to lower-earnings persons than to higher-earnings persons.

Options.

E-1 Increase the "bend points" in the PIA benefit formula by 75% of the increase in wages (rather than by 100% as under present law) for "X" years (until such bend points are 80% of what they would have been under 100% wage indexing), effective in 1984.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	.0	-.1	-.2	-.5	-.8	-1.3	-2.9
III	0	.0	-.1	-.2	-.6	-.9	-1.4	-3.2

25-Year Cost: -.28% of taxable payroll
50-Year Cost: -.79% of taxable payroll
Long-Term Cost: -1.08% of taxable payroll

E-2 Same as Option E-1, except effective in 1987.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	0	0	-.0	-.1	-.2	-.3
III	0	0	0	0	-.0	-.1	-.3	-.4

Long-Term Cost: -1.01% of taxable payroll

E-3 Same as Option E-1, except effective in 2000.

25-Year Cost: -.01% of taxable payroll
50-Year Cost: -.40% of taxable payroll
Long-Term Cost: -.80% of taxable payroll

E-4 Same as Option E-1, except effective in 2010.

25-Year Cost: None
50-Year Cost: -.17% of taxable payroll
Long-Term Cost: -.60% of taxable payroll

E-5 Same as Option E-1, except effective in 2020.

25-Year Cost: None
50-Year Cost: -.03% of taxable payroll
Long-Term Cost: -.37% of taxable payroll

E-6 Index the "bend points" by 75% of the increase in wages for 3 years, effective in 1987.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	0	0	-.0	-.1	-.2	-.3
III	0	0	0	0	-.0	-.1	-.3	-.4

Long-Term Cost: -.22% of taxable payroll

E-7 Change computation point for determining Average Indexed Monthly Earnings from age 62 to age 65 (so that, for retirement cases, 3 more computation years would be required in determining the AIME), phased in beginning with workers who attain age 62 in 1984.

	Cost in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	.0	-.2	-.4	-.6	-.8	-1.0	-3.0
III	0	.0	-.2	-.4	-.7	-.9	-1.1	-3.3

Long-Term Cost: -.25% of taxable payroll

E-8 Reduce the percentages in the PIA benefit formula -- 90%, 32%, and 15% -- by 10% relatively, over a 15-year period (1984-98), so that they would ultimately be 81.0%, 28.8%, and 13.5%. This would have the effect ultimately of reducing benefits in all cases (regardless of earnings history) by 10%.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.0	-.1	-.2	-.4	-.8	-1.2	-2.8
III	0	-.0	-.1	-.2	-.5	-.9	-1.3	-3.0

Long-Term Cost: -1.08% of taxable payroll

E-9 Same as Option E-8, except begin the reductions in 1990 (instead of 1984).

Long-Term Cost: .95% of taxable payroll

E-10 Same as Option E-9, except reduce the percentage factors by 5% relatively over an 8-year period.

Long-Term Cost: .50% of taxable payroll

E-11 Same as Option E-9, except that the 90% factor would not be reduced, and the 32% factor would be lowered to 25%, and the 15% factor would be lowered to 13%.

Long-Term Cost: .95% of taxable payroll

SUMMARY OF SECTION F - RETIREMENT AGE

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
F-1	Increase "normal" retirement age to 66 in 1999, beginning phase-in in 1990.	$0	$0	-.52%
F-2	Increase "normal" retirement age to 66 in 2014, beginning phase-in in 2005.	0	0	-.41
F-3	Increase "normal" retirement age to 66 in 2024, beginning phase-in in 2015.	0	0	-.31
F-4	Increase "normal" retirement age to 67 in 2012, beginning phase-in in 2000.	0	0	-.86
F-5	Increase "normal" retirement age to 67 in 2022, beginning phase-in in 2010.	0	0	-.69
F-6	Increase "normal" retirement age to 67 in 2032, beginning phase-in in 2020.	0	0	-.48
F-7	Increase "normal" retirement age to 68 in 2017, beginning phase-in in 2000.	0	0	-1.22
F-8	Increase "normal" retirement age to 68 in 2027, beginning phase-in in 2010.	0	0	-.95
F-9	Increase "normal" retirement age to 68 in 2037, beginning phase-in in 2020.	0	0	-.63
F-10	Increase "normal" retirement age to 69 in 2022, beginning phase-in in 2000.	0	0	-1.53
F-11	Increase "normal" retirement age to 69 in 2054, beginning phase-in in 2000.	0	0	-.96
F-12	Increase "normal" retirement age to 66 in 2002, beginning phase-in in 1995, and thereafter, adjust according to changes in longevity.	0	0	-1.68

F. RETIREMENT AGE

Present law. Unreduced retirement benefits are available to insured workers, spouses, and widows and widowers at age 65 (the "normal" retirement age). Actuarially reduced benefits are available at age 62 for insured workers and spouses and at age 60 for widows and widowers (age 50 if disabled). For insured workers who delay receipt of benefits beyond age 65, retirement benefits are increased by 3% for each year of delay (for persons attaining age 65 after 1981). See table at bottom of this page for actuarial benefit factors under present law and under each option as to normal retirement age.

Options.

F-1 Gradually increase the "normal" retirement age to 66 in 1999, beginning the phase-in with those who attain age 62 in 1990.*

25-Year Cost: -.14% of taxable payroll
50-Year Cost: -.38% of taxable payroll
Long-Term Cost: -.52% of taxable payroll

F-2 Gradually increase the "normal" retirement age to 66 in 2014, beginning the phase-in with those who attain age 62 in 2005.*

25-Year Cost: -.00% of taxable payroll
50-Year Cost: -.23% of taxable payroll
Long-Term Cost: -.41% of taxable payroll

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* Early-retirement benefits would continue to be available beginning at age 62 for insured workers and spouses and at age 60 for widows and widowers, but the actuarial benefit factors would be made smaller. The minimum age for eligibility for Medicare benefits would continue to be the "normal" retirement age for OASDI benefits. Disability benefits would be available to those disabled between age 65 and the increased "normal" retirement age, under the more lenient definition now applicable at ages 60-64. The age at which the earnings test no longer applies would be left at age 70 (if such age were increased in tandem with the increase in the normal retirement age, the reduction in cost would be somewhat larger).

Normal Retirement Age	Actuarial Benefit Factors			
	Worker, Age 62	Spouse, Age 62	Widow, Age 60	Disabled Widow, Age 50
65	80.0%	75.0%	71.5%	50.0%
66	75.0	70.0	66.5	50.0
67	70.0	65.0	61.5	50.0
68	65.0	60.0	56.5	50.0
69	60.0	55.0	51.5	50.0

F-3 Gradually increase the normal retirement age to 66 in 2024, beginning the phase-in with those who attain age 62 in 2015.*

25-Year Cost:	None
50-Year Cost:	-.12% of taxable payroll
Long-Term Cost:	-.31% of taxable payroll

F-4 Gradually increase the "normal" retirement age to 67 in 2012, beginning the phase-in with those who attain age 62 in 2000.*

25-Year Cost:	-.03% of taxable payroll
50-Year Cost:	-.54% of taxable payroll
Long-Term Cost:	-.86% of taxable payroll

F-5 Gradually increase the "normal" retirement age to 67 in 2022, beginning the phase-in with those who attain age 62 in 2010.*

25-Year Cost:	None
50-Year Cost:	-.32% of taxable payroll
Long-Term Cost:	-.69% of taxable payroll

F-6 Gradually increase the "normal" retirement age to 67 in 2032, beginning the phase-in with those who attain age 62 in 2020.*

25-Year Cost:	None
50-Year Cost:	-.09% of taxable payroll
Long-Term Cost:	-.48% of taxable payroll

F-7 Gradually increase the "normal" retirement age to 68 in 2017, beginning the phase-in with those who attain age 62 in 2000.*

25-Year Cost:	-.03% of taxable payroll
50-Year Cost:	-.72% of taxable payroll
Long-Term Cost:	-1.22% of taxable payroll

F-8 Gradually increase the "normal" retirement age to 68 in 2027, beginning the phase-in with those who attain age 62 in 2010.*

25-Year Cost: None
50-Year Cost: -.40% of taxable payroll
Long-Term Cost: -.95% of taxable payroll

F-9 Gradually increase the "normal" retirement age to 68 in 2037, beginning the phase-in with those who attain age 62 in 2020.*

25-Year Cost: None
50-Year Cost: -.09% of taxable payroll
Long-Term Cost: -.63% of taxable payroll

F-10 Gradually increase the "normal" retirement age to 69 in 2022, beginning the phase-in with those who attain age 62 in 2000.*

25-Year Cost: -.03% of taxable payroll
50-Year Cost: -.88% of taxable payroll
Long-Term Cost: -1.53% of taxable payroll

F-11 Gradually increase the "normal" retirement age to 69 in 2054, beginning the phase-in with those who attain age 62 in 2000.*

25-Year Cost: -.01% of taxable payroll
50-Year Cost: -.36% of taxable payroll
Long-Term Cost: -.96% of taxable payroll

F-12 Gradually increase the "normal" retirement age to 66 in 2002, beginning the phase-in with those who attain age 62 in 1995. Beginning with those who attain age 62 in 2002, automatically adjust such age (on a phased-in basis) so that the ratio of the retirement-life expectancy to the potential working-lifetime (from age 20 to the "normal" retirement age) remains the same over the years. The age at which early-retirement benefits are first payable and the age at which the earnings test no longer applies would be increased in tandem with the increase in the normal retirement age.

Long-Term Cost: -1.68% of taxable payroll

SUMMARY OF SECTION G - DISABILITY BENEFITS

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
G-1	Use medical-only definition of disability.	-$10	-$11	-.06%
G-2	Apply disability eligibility criteria under present law for persons aged 60-64, to persons aged 55 and over.	+1	+2	+.04
G-3	Increase disability waiting period from 5 months to 6 months.	-2	-2	-.03
G-4	Require prognosis of 24 months of disability.	-4	-5	-.06
G-5	Change requirement for disability-insured status by increasing recency-of-work test to 30 quarters of coverage in last 40 quarters (rather than 20 out of 40).	-5	-6	-.25
G-6	Change requirement for disability-insured status by eliminating the test of 20 quarters of coverage out of the last 40 quarters.	+20	+22	+.24

G. DISABILITY BENEFITS

Present law. Benefits are available to insured workers who meet the statutory definition of disability, with a waiting period of 5 full calendar months before the first month of eligibility.

Options.

G-1 Establish a medical-only definition of disability (so that non-medical factors -- such as age, education, and work experience -- would no longer be considered in determining disability), effective for benefits for months after 1983 based on disabilities which begin after June 1983.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.2	-.6	-1.3	-2.0	-2.7	-3.4	-10.2
III	0	-.2	-.7	-1.4	-2.2	-3.1	-3.8	-11.4

Long-Term Cost: -.06% of taxable payroll

G-2 Apply disability eligibility criteria under present law for persons aged 60-64, to persons aged 55 and over, effective in 1985.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	+.1	+.2	+.3	+.4	+.4	+1.4
III	0	0	+.1	+.2	+.3	+.4	+.5	+1.5

25-Year Cost: +.03% of taxable payroll
50-Year Cost: +.04% of taxable payroll
Long-Term Cost: +.04% of taxable payroll

G-3 Increase waiting period to 6 months (instead of 5 months, as at present), effective for benefits for months after 1983 based on disabilities which begin after June 1983.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.1	-.3	-.3	-.3	-.3	-.4	-1.6
III	0	-.1	-.2	-.3	-.3	-.4	-.4	-1.8

Long-Term Cost: -.03% of taxable payroll

G-4 Require prognosis of at least 24 months of disability (instead of 12 months, as at present), effective for benefits for months after 1983 based on disabilities which begin after June 1983.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.1	-.4	-.6	-.8	-.9	-1.0	-3.8
III	0	-.1	-.5	-.7	-1.0	-1.1	-1.2	-4.6

Long-Term Cost: -.06% of taxable payroll

G-5 Increase requirement for disability-insured status by requiring 30 Quarters of Coverage in the last 40 Quarters (instead of 20 QC out of 40), effective for benefits for months after 1983, based on disabilities which begin after June 1983.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.1	-.3	-.7	-1.0	-1.4	-1.7	-5.2
III	0	-.1	-.3	-.7	-1.1	-1.6	-2.0	-5.8

Long-Term Cost: -.25% of taxable payroll

G-6 Change the requirement for disability-insured status by eliminating the test of 20 QC out of the last 40 quarters, effective in 1984.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+2.0	+3.3	+3.5	+3.6	+3.7	+3.9	+20.0
III	0	+2.0	+3.5	+3.7	+3.9	+4.2	+4.5	+21.8

Long-Term Cost: +.24% of taxable payroll

SUMMARY OF SECTION H - PROPOSALS AFFECTING PRIMARILY WOMEN

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
H-1	Divorced and disabled widow(er)'s benefits not to be terminated upon remarriage.	*	*	*
H-2	Provide benefits of 71.5% of deceased worker's PIA to disabled widow(er)s claiming benefits at ages 50-59.	+$1	+$1	+.01%
H-3	Provide benefits of 100% of the deceased worker's PIA to disabled widow(er)s claiming benefits at ages 50-64.	+6	+6	+.03
H-4	Permit widow(er)s to rescind an early-retirement decision in certain cases by counting the reduction in the widow(er)'s benefit as "repayment" of the early-retirement benefits paid.	*	*	*
H-5	Provide indexing of earnings records for purposes of deferred survivor benefits by wages instead of by prices.	*	*	+.05
H-6	Permit a divorced spouse to receive benefits regardless of whether the insured former spouse has retired.	*	*	*

n.a. = Not available.

* Less than $½ billion or less than .005% of payroll (as the case may be).

** The costs of each of these alternatives are shown on subsequent pages.

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
H-7	Change special-minimum benefit to allow credit for 10 childcare years; increase number of years countable toward the special-minimum benefit from 30 to 35 years.	+15	+16	+.14
H-8	Allow up to 3, 5, or 10 childcare drop-out years in computing the average earnings.	n.a.	n.a.	**
H-9	Adopt comprehensive earnings sharing, with 80% inheritance of earnings credits.	n.a.	n.a.	-.06
H-10	Adopt earnings sharing with 100% inheritance of earnings credits.	n.a.	n.a.	+.35
H-11	Adopt limited earnings sharing at divorce, and inheritance of earnings credits.	n.a.	n.a.	+.07
H-12	Adopt the HHS development of the recommendations of the 1979 Advisory Council regarding earnings sharing.	n.a.	n.a.	+.12

H. PROPOSALS AFFECTING PRIMARILY WOMEN

Widow(er)'s Benefits

Present law. Benefits for widow(er)s who are divorced spouses and for disabled widow(er)s terminate when the beneficiary remarries.

Option.

H-1 Do not terminate such benefits upon remarriage, effective in 1984.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+.0	+.0	+.0	+.0	+.0	+.0	+.1
III	0	+.0	+.0	+.0	+.0	+.0	+.0	+.1

Long-Term Cost: Negligible

Disabled Widow(er)'s Benefits

Present law. Reduced benefits for widow(er)s without dependent children are available at ages 60-64 (71½% of PIA at age 60), and 100% of the PIA is available at age 65. Disabled widow(er)s are eligible for reduced benefits at ages 50-59 (50% of PIA at age 50).

Option.

H-2 Provide benefit of 71.5% of PIA (same as widow(er)'s benefits at age 60) to disabled widow(er)s claiming benefits at ages 50-59, effective in 1984.

	Cost (in billions of dollars							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+.2	+.2	+.2	+.2	+.3	+.3	+1.4
III	0	+.2	+.2	+.2	+.2	+.3	+.3	+1.4

Long-Term Cost: +.01% of taxable payroll

H-3 Provide benefit of 100% of PIA to disabled widow(er)s aged 50-64, effective in 1984.

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+.8	+.8	+.9	+1.0	+1.0	+1.1	+5.6
III	0	+.8	+.8	+.9	+1.0	+1.1	+1.2	+5.8

Long-Term Cost: +.03% of taxable payroll

Limit on Widow(er)'s Benefits

Present law. There is an over-riding limit which is only applicable when the deceased worker had received early-retirement benefits; then, the widow's benefit cannot exceed the larger of the early-retirement benefit or 82.5% of the PIA. This maximum is applicable only when the widow is at least age 62 and has the most effect when the woman was older than her husband.

Option.

H-4 When such limit on widow(er)'s benefits is applicable, and the retired worker dies before age 65, the widow(er) may "rescind" the early-retirement decision by counting the reduction in the widow(er)'s benefit resulting from such limit as "repayment" of the early-retirement benefits paid (including any auxiliary benefits). The period of repayment should be determined from the amounts payable to the beneficiaries who are eligible as of the date of the worker's death.

Long-Term Cost: Negligible

Computation of Deferred Widow(er)'s Benefits

Present law. If a worker dies before reaching age 62, benefits for the widow(er) are based on the worker's earnings, as indexed to average wage levels in the second year preceding death; the benefit is indexed in and after the year of death to reflect changes in the CPI.

Option.

H-5 Index earnings records for purposes of deferred survivor benefits (e.g., a woman widowed at age 55 is first eligible for widow's benefits at age 60) through the earlier of (1) the year that the worker would have reached age 60, or (2) two years before the survivor becomes eligible for aged widow's benefits at age 60, effective in 1985.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1982-89
II-B	0	0	+.0	+.0	+.0	+.1	+.1	+.2
III	0	0	+.0	+.0	+.0	+.1	+.1	+.2

Long-Term Cost: +.05% of taxable payroll

Divorced Persons

Present law. A divorced spouse cannot receive spouse's benefits until the former spouse begins to receive benefits.

Option.

H-6 A divorced spouse (divorced at least 3 years) would be able to receive benefits if he or she meets the age requirements for eligibility, regardless of whether or not the insured former spouse, aged 62 or over, has retired (the earnings test would apply to each independently), effective in 1984.*

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+.0	+.0	+.0	+.0	+.0	+.0	+.1
III	0	+.0	+.0	+.0	+.0	+.0	+.0	+.1

Long-Term Cost: Negligible

* As an alternative, the option could provide for a 1-year divorce requirement, instead of a 3-year requirement.

Childcare Credits

Present law. To compute the Average Indexed Monthly Earnings of retired workers, the 5 lowest years of indexed earnings are dropped from the appropriate averaging period. For workers attaining age 62 in 1991 or later, retirement benefits will be based on the highest 35 years of indexed earnings. Present law also provides a special minimum benefit as an alternative computation based on the worker's "years of coverage", which is designed for long-service workers with earnings at approximately the Federal minimum-wage level.

Options.

H-7 Change provisions for special-minimum benefit so as to allow credit for up to 10 childcare years (in which the worker had a child age 6 or under and did not earn enough to gain a year of coverage). Increase the number of years countable toward the special minimum benefit from 30 to 35, effective in 1984.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+1.8	+2.1	+2.4	+2.6	+2.9	+3.2	+15.0
III	0	+1.8	+2.2	+2.5	+2.8	+3.2	+3.6	+16.1

Long-Term Cost: +.14% of taxable payroll

H-8 Allow up to (alternatively) 3, 5, or 10 childcare drop-out years in computing Average Indexed Monthly Earnings for the purpose of calculating benefits under the regular benefit formula for each year the worker had a child under age 7 and did not earn more than half of the average wage of all covered workers during the year, effective in 1984.**

Long-Term Cost for Allowing up to 3 Years: +.21% of taxable payroll
Long-Term Cost for Allowing up to 5 Years: +.36% of taxable payroll
Long-Term Cost for Allowing up to 10 Years: +.60% of taxable payroll

** Cost data for the short-term period are not available, but relatively little increase in cost would be involved during 1983-89.

Earnings Sharing Proposals

H-9 Comprehensive "No-Cost" Plan. The DHEW report, "Social Security and the Changing Roles of Men and Women", presented a comprehensive earnings-sharing proposal, within a "no cost" framework. Under the proposal, a person's Social Security protection would be based on her or his earnings when unmarried and, when married, on one-half of the total earnings credits of the married couple. A couple's annual earnings would be divided equally during years of marrriage. The earnings would be split equally on divorce or when one spouse reaches age 62. Such split would not apply under certain conditions: (1) on death of a spouse, 80% of total earnings would be inherited, but not less than 100% of the earnings of the higher earner; (2) for purposes of benefits for young survivors, earnings would not be transferred between spouses with regard to a marriage in effect at time of death; and (3) for purposes of disability benefits, earnings would not be shared with regard to a marriage in effect at time of disability. The proposal did not include any transitional proposals.

Long-Term Cost: -.06% of taxable payroll

H-10 Plan for Earnings Sharing and Inheritance of Earnings Credits (considered but not recommended by 1979 Advisory Council). Credits earned during years of marriage would be divided equally between spouses. Benefits for each person would be based upon earnings before and after the marriage, plus half the couple's earnings during the marriage. Earnings would be shared only for years after 1980. If the higher-earner retired or became disabled before the lower-earner, he or she would receive benefits based on the higher-earner's full earnings, rather than half of the couple's combined earnings. Under a transitional provision (phased out by 2020), couples would receive the higher of the benefit calculated under earnings sharing or the benefit calculated under a transitional formula assuring the same purchasing power as under present law. A survivor would inherit the earnings credits of a deceased spouse acquired during the marriage. The survivor would receive 100% of the couple's combined earnings credits, plus any credits which the survivor had earned before or after the marriage.

Long-Term cost: +.35% of taxable payroll

H-11 1979 Advisory Council Recommendation for Inheritance of Earnings Credits at Death of Spouse and Limited Earnings Sharing at Divorce. A survivor could inherit the earnings credits of a deceased spouse from work that occurred during their marriage. At ages 60-61, reduced widow(er)'s benefits would be calculated only from inherited earnings credits. At age 62, the individual would be eligible for retired worker's benefits based on inherited earnings credits combined with own earnings credits. Inheritance would also eliminate disabled widow(er)'s benefits, because eligibility for DI could be established through inheritance.

Upon request by either partner in a marriage of at least 10 years that ended in divorce, earnings credits would be split, for purposes of calculating retirement benefits only.

Long-Term Cost: +.07% of taxable payroll, without hold-harmless provision*

H-12 HHS Development of the Recommendations of the 1979 Advisory Council. Either partner, at time of divorce, could apply to have earnings credits shared for years during a marriage. Disability benefits would be calculated based on shared earnings, but entitlement to disability could not be gained therefrom. Credits acquired during years of marriage would be credited to the earnings record of the surviving spouse. Inherited credits would substitute for all present-law benefits payable to aged and disabled widow(er)s. Benefits for surviving children, widowed mothers and fathers, and children of retired or disabled workers would not be affected. Under the transition provision, those reaching age 62 before 2010 would be eligible for the new basis, but would continue to be eligible for auxiliary and survivor benefits if higher.

Long-Term cost: +.12% of taxable payroll

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* The Advisory Council did not recommend a hold-harmless provision, which would provide present benefits for aged and disabled widow(er)s forever, if higher. With such a provision, the estimated long-term cost of this proposal is +.22% of taxable payroll.

SUMMARY OF SECTION I - OTHER OPTIONS FOR BENEFIT CHANGES

Option No.	Description	OASDI Cost 1983-89 (billions) II-B	III	Long-Term Cost
I-1	Eliminate child's benefits for early-retirement cases.	-$3	-$3	-.02%
I-2	Eliminate all auxiliary benefits for early-retirement cases.	-6	-7	-.02
I-3	Apply same Maximum Family Benefit for OASI cases as currently used for DI cases.	-4	-4	-.10
I-4	Phase out retirement earnings test for persons aged 65 and over in 1988, with annual exempt amount increasing in 1985-87.	+15	+17	+.14
I-5	Maintain age 72 as age at which earnings test does not apply.	-5	-6	-.03
I-6	Increase delayed-retirement credit from 3% to 6% for each year that retirement is postponed past age 65.	+1	+1	+.07
I-7	Provide partial refundable income tax credit at ages 65 and over when benefits are withheld under the earnings test.	0	0	0
I-8	Provide 10% benefit increase for beneficiaries when they reach age 80, gradually phased in.	+6	+7	+.25

I. OTHER OPTIONS REGARDING BENEFIT CHANGES

I-1 Eliminate benefits for children of retired workers who have not attained age 65, effective for persons attaining age 62 in 1984.

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.1	-.2	-.4	-.6	-.7	-.8	-2.8
III	0	-.1	-.2	-.4	-.7	-.8	-.9	-3.1

Long-Term Cost: -.02% of taxable payroll

I-2 Eliminate all auxiliary benefits for early-retirement cases, effective for persons attaining age 62 in 1984.

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.1	-.4	-.8	-1.4	-1.7	-1.8	-6.2
III	0	-.1	-.4	-.9	-1.6	-1.9	-2.0	-6.9

Long-Term Cost: -.02% of taxable payroll

I-3 Apply same Maximum Family Benefit for OASI cases as is currently used for DI cases, effective for persons attaining age 62 after 1983 and for deaths before age 62 occurring after 1983. (In DI cases, family benefits are limited to the lesser of 85% of AIME or 150% of PIA, but never less than 100% of PIA.)

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-.1	-.3	-.5	-.7	-1.0	-1.3	-3.9
III	0	-.1	-.3	-.5	-.8	-1.1	-1.4	-4.2

Long-Term Cost: -.10% of taxable payroll

I-4 Phase out retirement earnings test for beneficiaries aged 65 and over, with annual exempt amount increasing to $10,000 in 1985, $15,000 in 1986, and $20,000 in 1987, and with elimination of test in 1988.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	+.8	+1.6	+2.4	+5.1	+5.5	+15.4
III	0	0	+.8	+1.7	+2.7	+5.8	+6.4	+17.4

Long-Term Cost: +.14% of taxable payroll

I-5 Maintain age 72 as age at which earnings test no longer applies.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-.6	-.6	-.7	-.7	-.8	-.9	-.9	-5.2
III	-.6	-.6	-.7	-.8	-.9	-1.0	-1.1	-5.7

25-Year Cost: -.02% of taxable payroll
50-Year Cost: -.03% of taxable payroll
Long-Term Cost: -.03% of taxable payroll

I-6 Increase the delayed-retirement credit from 3% to 6% for each year that receipt of benefits is postponed past age 65 up until age 70, beginning in 1983.

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	+.0	+.0	+.0	+.1	+.2	+.4	+.6	+1.3
III	+.0	+.0	+.0	+.1	+.2	+.4	+.7	+1.4

25-Year Cost: +.02% of taxable payroll
50-Year Cost: +.05% of taxable payroll
Long-Term Cost: +.07% of taxable payroll

I-7 Provide a partial refundable income tax credit for persons aged 65 and over who do not receive benefits because of the earnings test (recommendation of 1981 National Commission on Social Security), effective in 1983.

No short-term or long-term cost to trust funds

I-8 Provide a 10% increase in benefit amounts for beneficiaries when they attain age 80, phased in over a 10-year period (i.e., a 1% increase during 1984, rising to 10% during 1993 and after).

	Cost (in billions of dollars)							
Estimate	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+.2	+.5	+.9	+1.3	+1.6	+2.0	+6.5
III	0	+.2	+.5	+1.0	+1.5	+1.8	+2.3	+7.3

Long-Term Cost: +.25% of taxable payroll

SUMMARY OF SECTION J - TAXATION OF BENEFITS

Option No.	Description
J-1	Include 50% of OASDI benefits in adjusted gross income for income-tax purposes, with the proceeds credited to the OASDI Trust Funds.
J-2	Same as Option J-1, except that 100% of OASDI benefits would be included in adjusted gross income.
J-3	Include OASDI benefits in adjusted gross income for purposes of the income tax in the same manner as are unemployment benefits, with the proceeds being credited to the OASDI Trust Funds.
J-4	Include all OASDI benefits in adjusted gross income as soon as such benefits first exceed the total employee OASDI taxes paid, with the proceeds being credited to the OASDI Trust Funds.
J-5	Consider OASDI benefits as "income" for purposes of determining marginal income tax rates applicable to other income (OASDI benefits would not be taxable), with the proceeds being credited to the OASDI Trust Funds.
J-6	Include 50% of OASDI benefits in adjusted gross income, phased-in over 40 years, with the proceeds being credited to the OASDI Trust Funds. Also, there would be a phased-in exclusion of the employee OASDI taxes from such gross income.
J-7	Same as Option J-6 except that 100% of benefits would be included in adjusted gross income.

Note: See subsequent pages for cost data, which are not summarized here because of the diverse nature of the estimates for the various proposals.

Note: The short-range cost estimates presented here were prepared by the staff of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services. The staff of the Joint Committee on Taxation, U.S. Congress, has also made estimates of this type, and these tend to be higher than those shown in this Section (e.g., for Option J-3, the total savings for 1983-89 shown here as $29 billion are $46 billion according to the Joint Committee estimate).

J. TAXATION OF BENEFITS*

Present law. OASDI benefits are not subject to income tax.

Options.

J-1 Include 50% of OASDI benefits in adjusted gross income for Federal income-tax purposes, with the proceeds credited to the OASDI Trust Funds, effective in 1984.

Cost (in billions of dollars)							
1983	1984	1985	1986	1987	1988	1989	1983-89
0	-7.0	-7.8	-8.5	-9.2	-10.0	-10.8	-53.3

Long-Term Cost: -.6% of taxable payroll

J-2 Same as Option J-1, except that 100% of OASDI benefits would be included in adjusted gross income.

Cost (in billions of dollars)							
1983	1984	1985	1986	1987	1988	1989	1983-89
0	-17.7	-19.5	-21.4	-23.3	-25.3	-27.4	-134.6

Long-Term Cost: -1.4% of taxable payroll

* All proposals in this section assume that the tax credit for persons aged 65 and over is eliminated. Such elimination provides most of the additional revenue in the early years for proposals J-3, J-4, J-6, and J-7.

J-3 If benefits plus other income exceed $12,000 for single persons or $18,000 for married couples, then include $1 of OASDI benefits for each $2 of income above the respective thresholds in adjusted gross income for Federal income tax purposes, up to a maximum of 50% of OASDI benefits. (Unemployment benefits are currently treated somewhat in this manner.) The proceeds would be credited to the OASDI Trust Funds, effective in 1984.

Cost (in billions of dollars)							
1983	1984	1985	1986	1987	1988	1989	1983-89
0	-3.4	-3.9	-4.5	-5.1	-5.7	-6.4	-29.0

Long-Term Cost: .5% of taxable payroll if dollar figures remain unchanged over the long-range (or .3% of taxable payroll if they are indexed to wage changes).

J-4 Include the amount of OASDI benefits paid after 1983, after recovery of employee contributions, in adjusted gross income for Federal income tax purposes. The proceeds would be credited to the OASDI Trust Funds, effective in 1984.

Short-Term Cost: Little effect in the first few years. Ultimately, the effect would be similar to Option J-2.

Long-Term Cost: -1.2% of taxable payroll

J-5 Consider OASDI benefits as "income" for purposes of determining the marginal Federal income tax rates applicable to other income, but continue to exclude OASDI benefits from such taxation. The additional proceeds resulting from such changed procedure would be credited to the OASDI Trust Funds, effective in 1984.

Cost (in billions of dollars)							
1983	1984	1985	1986	1987	1988	1989	1983-89
0	-13.1	-14.4	-15.7	-17.0	-18.3	-19.7	-98.1

Long-Term Cost: n.a.

n.a. = not available

J-6 Include 50% of OASDI benefits in adjusted gross income for Federal income-tax purposes, phased in over 40 years, with the proceeds being credited to the OASDI Trust Funds, effective in 1984. At the same time, there would be a phased-in exclusion of the employee OASDI taxes from such gross income (the resulting loss in tax revenues would not be taken from the OASDI Trust Funds).

Short-Term Cost: Little effect in the early years.

Long-Term Cost: -.4% of taxable payroll

J-7 Same as Option J-6, except that 50% of OASDI benefits would be included in such adjusted gross income in 1984, with increases over 40 years so that ultimately 100% would be so included.

Short-Term Cost: Little effect in the early years.

Long-Term Cost: -1.20% of taxable payroll

SUMMARY OF SECTION K - OTHER ISSUES

Option No.	Description
K-1	Trust-fund investment procedures.
K-2	Social Security and the unified budget.
K-3	Social Security Administration to become an independent agency.
K-4	Benefits to certain overseas beneficiaries.
K-5	Eliminate mandatory retirement.
K-6	Require continued accrual of pensions.
K-7	Encourage employment of low-income older workers.

K. OTHER ISSUES

K-1 Trust-Fund Investment Procedures

Present law. The OASI, DI, HI, and SMI Trust Funds are invested in U.S. Government obligations, primarily in special issues, but also in publicly available obligations of the Federal government or certain Federal agencies. Maturity dates for the special issues are intended generally to be spread in equal amounts over the next 15 years. The interest rate for new special issues is equal to the average market-yield rate on all marketable government obligations that are not due or callable for at least 4 years.

Option. Revise the investment procedures of the four trust funds in the following manner -- (1) in the future, all special issues would be invested on a month-to-month basis, at an interest rate based on the average market rate of all public-debt obligations outstanding, exclusive of "flower" bonds; (2) all present special issues would be redeemed; (3) all "flower" bonds would be redeemed at their current market values (not their face or maturity values); and (4) all other current holdings would be held until maturity.

K-2 Social Security and the Unified Budget

Present law. The operations of the OASI, DI, HI, and SMI Trust Funds are included in the Unified Budget.

Option. Remove the operations of the four trust funds from the Unified Budget.

K-3 Social Security Administration to Become Independent Agency

Present law. The Social Security Administration is under the jurisdiction of the Department of Health and Human Services.

Option. Establish an independent Social Security agency, removed from the Department of Health and Human Services, and reporting directly to the President. This agency would be headed by a board, which might consist of three members appointed by the President, with Senate confirmation (e.g., the Chairman would have a term corresponding with that of the President, while the other two members would have to be of different political parties, with 4-year terms expiring at the end of 1986, 1990, etc.).

K-4 Benefits to Certain Overseas Beneficiaries

Present law. OASDI benefits are payable outside of the United States -- whether to citizens or non-citizens -- on exactly the same basis as in the United States, except when the individual is a non-citizen and had only a short period of coverage, or when the individual is a citizen of a country which does not pay benefits to U.S. citizens under parallel circumstances, or when the individual is residing in a country where there is no reasonable assurance that checks can be cashed at full value.

Option. Prohibit benefit eligibility for auxiliary benefits for spouses and children of beneficiaries living abroad when such auxiliary beneficiary had not resided in the U.S. for at least 5 years and when such auxiliary beneficiary continues to reside abroad.

Long-Term Cost: -.01% of taxable payroll

K-5 Eliminate Mandatory Retirement

Amend the Age Discrimination in Employment Act to remove the upper age limit of 70, thereby eliminating mandatory retirement at any age.

Long-Term Cost: -.03% of taxable payroll

K-6 Require Continued Accrual of Pensions

Amend the Employee Retirement Income Security Act to require employers to continue accruing pensions for workers after age 65.

Long-Term Cost: n.a.

K-7 Encourage Employment of Low Income Older Workers

Amend the Targeted Jobs Tax Credit to include low income older workers (age 62+).

Long-Term Cost: n.a.

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n.a. = Not available.

LIST OF TABLES

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2. Past and future OASDI-HI tax rates and taxable earnings bases (Table A -- employer and employee, each; Table B -- employer and employee combined; Table C -- self-employed).

3. Growth of OASDI-HI programs, selected years 1940-81 and estimated future operations during CY 1982-86 under Alternatives II-A and II-B. (Tables A-C refer to OASDI and Table D refers to HI.)

4. Historical trust-fund ratio levels for OASDI, DI, and HI Trust Funds, 1950 to present.

5. Estimated operations of the OASI, DI, and HI Trust Funds in the short range, Alternatives I, II-A, II-B, and III.

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8. Estimated OASI and DI Trust Fund ratios under Alternatives I, II-A, II-B, and III, 1982-2060.

9. Estimated cost of OASDI and HI systems as percent of Gross National Product, 1982-2060. (Tables A and B)

10. Additional resources required under present law in near term to bring OASDI reserves up to certain levels (trust fund ratios of 15%, 25%, 50%, and 75%) under Alternatives II-B and III. (Tables A-D)

11. Comparison of OASDI beneficiaries and covered workers; includes worker to beneficiary ratios, historical and projected under Alternatives I, II-A, II-B, and III, 1945-2060.

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14. Comparison of estimated and actual key economic indicators -- 1972 and 1977 forecasts.

15. Social Security coverage (includes information on percentage of workers covered, percentage of earnings covered and taxable payroll).

16. Social Security taxes paid by workers at Federal minimum, average, and maximum wage levels, 1937-90 (employees and the self-employed).

17. Historical comparison of average wage increases and increase in the CPI to Social Security benefit increases. (Tables A and B)

Table 1

SUMMARY OF CURRENT SOCIAL SECURITY INFORMATION

1. Retirement Test (Annual Exempt Amounts in 1982): Age 65 and over - $6,000
   Under age 65 - $4,440

2. SMI Premium: $12.20 per month (eff. 7/82)

3. SSI Payment Standard: $284.30 individual, $426.40 couple (eff. 7/82)

4. Benefit Formulas for 1982 Cohort

PIA	Maximum Family Benefit
90% of first $230 of AIME, plus	150% of first $294 of PIA, plus
32% of AIME over $230 thru $1,388, plus	272% of PIA over $294 thru $425, plus
15% of AIME over $1,388	134% of PIA over $425 thru $554, plus
	175% of PIA over $554

5. Average Benefits in Current Pay Status: 1/

	12/81	5/82	6/82
Retired worker alone	$377	$378	$406
Retired couple	643	647	695
Aged widow or widower	349	351	377
Young survivor family	858	851	914
Disabled worker alone	397	398	428
Disabled worker and family	802	793	851

6. Benefit Examples:

Retired Worker Age 65 in 1983

	1/83 PIA
Fed. min. wage earner	$368.70
Average earner	552.50
Maximum earner	709.50

Long-Range Constant Replacement Rate Under Decoupled System

Fed. minimum wage earner	55%
Average earner	42
Maximum earner	28

7. Poverty Level:

	1980 (actual) 2/	1981 (preliminary) 2/	1982 (projected)
Aged individual	$3,949	$4,360	4,680
Couple, aged head	4,983	5,500	5,900
Family of four	8,414	9,290	9,970

1/ Office of the Actuary, Social Security Administration
2/ Office of Research and Statistics, Social Security Administration

Table 2A

PAST AND FUTURE TAX RATES FOR EMPLOYERS, EMPLOYEES, AND SELF-EMPLOYED PERSON

Period	OASDI	HI	OASDI-HI
	Employers and Employees, Each		
1977	4.95%	.90%	5.85%
1978	5.05	1.00	6.05
1979-80	5.08	1.05	6.13
1981	5.35	1.30	6.65
1982-84	5.40	1.30	6.70
1985	5.70	1.35	7.05
1986-89	5.70	1.45	7.15
1990 and after	6.20	1.45	7.65
	Self-Employed Persons		
1977	7.00%	.90%	7.90%
1978	7.10	1.00	8.10
1979-80	7.05	1.05	8.10
1981	8.00	1.30	9.30
1982-84	8.05	1.30	9.35
1985	8.55	1.35	9.90
1986-89	8.55	1.45	10.00
1990 and after	9.30	1.45	10.75

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Table 2B

PAST AND FUTURE TAX RATES AND TAXABLE EARNINGS BASES
FOR EMPLOYER AND EMPLOYEE COMBINED

Period	Taxable Earnings Base	Tax Rate			Maximum Employee Annual Tax
		OASDI a/	HI	Total	
1937-49	$ 3,000	2.0%	--	2.0%	$ 30.00
1950	3,000	3.0	--	3.0	45.00
1951-53	3,600	3.0	--	3.0	54.00
1954	3,600	4.0	--	4.0	72.00
1955-56	4,200	4.0	--	4.0	84.00
1957-58	4,200	4.5(.5)	--	4.5	94.50
1959	4,800	5.0(.5)	--	5.0	120.00
1960-61	4,800	6.0(.5)	--	6.0	144.00
1962	4,800	6.25(.5)	--	6.25	150.00
1963-65	4,800	7.25(.5)	--	7.25	174.00
1966	6,600	7.7(.7)	.7%	8.4	277.20
1967	6,600	7.8(.7)	1.0	8.8	290.40
1968	7,800	7.6(.95)	1.2	8.8	343.20
1969	7,800	8.4(.95)	1.2	9.6	374.40
1970	7,800	8.4(1.1)	1.2	9.6	374.40
1971	7,800	9.2(1.1)	1.2	10.4	405.60
1972	9,000	9.2(1.1)	1.2	10.4	468.00
1973	10,800	9.7(1.1)	2.0	11.7	631.80
1974	13,200	9.9(1.15)	1.8	11.7	772.20
1975	14,100	9.9(1.15)	1.8	11.7	824.85
1976	15,300	9.9(1.15)	1.8	11.7	895.05
1977	16,500	9.9(1.15)	1.8	11.7	965.25
1978	17,700	10.1(1.55)	2.0	12.1	1,070.85
1979	22,900	10.16(1.50)	2.1	12.26	1,403.77
1980	25,900	10.16(1.12)	2.1	12.26	1,587.67
1981	29,700	10.7(1.30)	2.6	13.3	1,975.05
1982	32,400	10.8(1.65)	2.6	13.4	2,170.80
1983	35,700	10.8(1.65)	2.6	13.4	2,391.90
1984	38,100 b/	10.8(1.65)	2.6	13.4	2,552.70
1985	41,100 b/	11.4(1.90)	2.7	14.1	2,897.55
1986-89	b/	11.4(1.90)	2.9	14.3	b/
1990 and after	b/	12.4(2.20)	2.9	15.3	b/

a/ Figures in parentheses are portion of total OASDI tax which is allocated to DI.

b/ Base is subject to automatic adjustment after 1981. Figures for 1984-85 are based on the 1982 Trustees Report (intermediate assumptions -- Alternative II-B).

Note: Cumulative employee taxes at maximum wages are $14,765.69 for 1937-81 and $14,330.69 for 1951-81.

Table 2C

PAST AND FUTURE TAX RATES AND TAXABLE EARNINGS BASES
FOR SELF-EMPLOYED

Period	Taxable Earnings Base	Tax Rate			Maximum Annual Tax
		OASDI a/	HI	Total	
1951-53	$ 3,600	2.25%	--	2.25%	$ 81.00
1954	3,600	3.00	--	3.00	108.00
1955-56	4,200	3.00	--	3.00	126.00
1957-58	4,200	3.375(.375)	--	3.375	141.75
1959	4,800	3.75(.375)	--	3.75	180.00
1960-61	4,800	4.50(.375)	--	4.50	216.00
1962	4,800	4.70(.375)	--	4.70	225.60
1963-65	4,800	5.40(.375)	--	5.40	259.20
1966	6,600	5.80(.525)	.35	6.15	405.90
1967	6,600	5.90(.525)	.50	6.40	422.40
1968	7,800	5.80(.7125)	.60	6.40	499.20
1969	7,800	6.30(.7125)	.60	6.90	538.20
1970	7,800	6.30(.825)	.60	6.90	538.20
1971	7,800	6.90(.825)	.60	7.50	585.00
1972	9,000	6.90(.825)	.60	7.50	675.00
1973	10,800	7.00(.795)	1.00	8.00	864.00
1974	13,200	7.00(.815)	.90	7.90	1,042.80
1975	14,100	7.00(.815)	.90	7.90	1,113.90
1976	15,300	7.00(.815)	.90	7.90	1,208.70
1977	16,500	7.00(.815)	.90	7.90	1,303.50
1978	17,700	7.10(1.0900)	1.00	8.10	1,433.70
1979	22,900	7.05(1.0400)	1.05	8.10	1,854.90
1980	25,900	7.05(.7775)	1.05	8.10	2,097.90
1981	29,700	8.00(.9750)	1.30	9.30	2,762.10
1982	32,400	8.05(1.2375)	1.30	9.35	3,029.40
1983	35,700	8.05(1.2375)	1.30	9.35	3,337.95
1984	38,100 b/	8.05(1.2375)	1.30	9.35	3,562.35
1985	41,100 b/	8.55(1.4250)	1.35	9.90	4,068.90
1986-89	b/	8.55(1.4250)	1.45	10.00	b/
1990 and after	b/	9.30(1.6500)	1.45	10.75	b/

a/ Figures in parentheses are portion of total OASDI tax which is allocated to DI.

b/ Base is subject to automatic adjustment after 1981. Figures for 1984-85 are based on 1982 Trustees Report (intermediate assumptions -- Alternative II-B).

Note: Cumulative self-employed taxes at maximum earnings are $19,847.10 for 1951-81

Table 3A

OPERATIONS OF THE OASI AND DI TRUST FUNDS, COMBINED, DURING SELECTED CALENDAR YEARS 1960-81 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1982-86 UNDER THE INTERMEDIATE SETS OF ASSUMPTIONS

[In millions]

	Income					Disbursements						
			Reimbursements from the general fund of Treasury for costs of—									
Calendar year	Total	Contributions, less refunds	Noncontributory credits for military service	Payments to non-insured persons aged 72 and over	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to Railroad Retirement Account	Net increase in funds	Funds at end of period
Past experience:												
1960	$12,445	$11,878	—	—	$569	$11,798	$11,245	—	$240	$314	$647	$22,613
1965	17,657	17,205	—	—	651	19,187	18,311	—	418	459	-1,331	19,841
1970	36,993	34,737	$94	$371	1,791	33,108	31,863	$20	635	589	3,886	38,068
1975	67,640	64,259	247	268	2,866	89,184	66,923	99	1,152	1,010	-1,544	44,342
1976	75,034	71,595	481	236	2,722	78,242	75,665	95	1,244	1,239	-3,209	41,133
1977	81,982	78,710	513	228	2,531	87,254	84,576	92	1,379	1,208	-5,272	35,861
1978	91,904	88,883	526	230	2,264	96,018	92,865	95	1,439	1,618	-4,115	31,746
1979	105,864	103,034	511	164	2,155	[6]107,320	104,263	96	1,483	1,477	-1,456	30,291
1980	119,712	116,711	521	150	2,330	123,550	120,512	86	1,522	1,430	-3,838	26,453
1981	142,438	139,364	703	140	2,231	144,352	[1]140,996	([5])	1,742	1,614	-1,914	24,539
Estimated future experience:												
Alternative II-A:												
1982	[2]152,978	149,528	718	139	1,814	160,287	156,135	167	1,984	2,001	-7,311	17,228
1983	185,754	163,924	727	125	978	174,633	170,175	12	2,232	2,214	-8,879	8,349
1984	178,896	178,195	735	109	-143	188,942	164,268	14	2,276	2,384	-10,046	-1,697
1985	205,535	205,329	743	92	-629	203,146	198,273	12	2,383	2,479	2,389	691
1986	225,099	224,744	521	78	-243	217,743	212,735	10	2,542	2,456	7,357	8,048
Alternative II-B:												
1982	[2]154,093	148,300	716	139	1,625	160,279	156,127	167	1,984	2,001	-6,186	18,353
1983	163,129	161,969	727	126	308	175,465	170,983	12	2,232	2,236	-12,336	6,017
1984	178,640	178,861	736	108	-1,065	193,282	188,537	14	2,317	2,414	-14,642	-8,624
1985	204,476	205,702	747	92	-2,065	212,518	207,478	12	2,486	2,542	-8,042	-16,667
1986	222,467	224,449	608	78	-2,668	231,387	226,125	10	2,823	2,630	-8,920	-25,587

[1]Adjusted to exclude benefits for December 1981 that were paid on December 31, 1981 rather than January 3, 1982 which was a Sunday. These benefits are included in the 1982 figure so that amounts for 1981 and 1982 each reflect 12 months of benefit payments and are comparable to figures for other calendar years.

[2]Includes $779 million assumed to be borrowed from the HI Trust Fund under the interfund borrowing provisions.

[3]Less than $500,000.

[4]Includes $5,313 million assumed to be borrowed from the HI Trust Fund under the interfund borrowing provisions.

NOTE: Projections do not reflect the effects of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L.97-248)--see Table 5 for summarized cost estimates including such effects.

SOURCE: Table 24 in 1982 OASDI Trustees Report

Table 3B

OPERATIONS OF THE OASI TRUST FUND DURING SELECTED CALENDAR YEARS 1940-81 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1982-86 UNDER THE INTERMEDIATE SETS OF ASSUMPTIONS

[In millions]

	Income					Disbursements						
			Reimbursements from the general fund of Treasury for costs of—									
Calendar year	Total	Contributions, less refunds	Noncontributory credits for military service	Payments to noninsured persons aged 72 and over	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to Railroad Retirement Account	Net increase in fund	Fund at end of period
Past experience:												
1940	$368	$325	—	—	$43	$62	$35	—	$26	—	$306	$2,031
1945	1,420	1,285	—	—	134	304	274	—	30	—	1,116	7,121
1950	2,928	2,667	$4	—	257	1,022	961	—	61	—	1,905	13,721
1955	6,167	5,713	—	—	454	5,079	4,968	—	119	-$7	1,087	21,663
1960	11,382	10,866	—	—	516	11,198	10,677	—	203	318	184	20,324
1965	16,610	16,017	—	—	593	17,501	16,737	—	328	436	-890	18,235
1970	32,220	30,256	78	$371	1,515	29,848	28,796	$2	471	579	2,371	32,454
1975	59,605	56,816	157	268	2,364	60,395	58,509	9	896	982	-790	36,987
1976	66,276	63,362	378	236	2,301	67,876	65,699	6	959	1,212	-1,600	35,388
1977	72,412	69,572	385	228	2,227	75,309	73,113	8	981	1,208	-2,897	32,491
1978	78,094	75,471	384	230	2,008	83,064	60,352	9	1,115	1,589	-4,971	27,520
1979	90,274	87,919	393	164	1,797	93,133	90,556	18	1,113	1,448	-2,860	24,660
1980	105,841	103,456	390	150	1,845	107,678	105,074	8	1,154	1,442	-1,837	22,824
1981	125,361	122,627	534	140	2,060	126,695	[1]123,796	8	1,307	1,585	-1,334	21,490
Estimated future experience:												
Alternative II-A:												
1982	[2]135,956	126,973	542	139	1,266	141,770	138,458	22	1,339	1,951	-5,814	15,676
1983	139,130	138,872	547	125	-414	155,637	151,929	2	1,509	2,197	-16,507	-831
1984	149,173	150,967	551	109	-2,453	169,272	165,354	2	1,542	2,375	-20,099	-20,930
1985	167,606	171,246	554	92	-4,286	182,573	178,491	2	1,614	2,466	-14,967	-35,897
1986	182,173	187,285	363	78	-5,552	196,104	191,903	1	1,723	2,477	-13,931	-49,827
Alternative II-B:												
1982	[2]137,083	124,234	542	139	1,108	141,771	138,459	22	1,339	1,951	-4,688	16,802
1983	137,005	137,216	547	126	-883	156,392	152,663	2	1,509	2,218	-19,386	-2,584
1984	149,144	151,528	551	108	-3,043	173,163	169,210	2	1,569	2,402	-24,039	-26,623
1985	167,147	171,554	556	92	-5,055	191,059	186,847	2	1,684	2,526	-23,913	-50,536
1986	180,669	187,043	454	78	-6,906	208,524	204,104	1	1,777	2,841	-27,855	-78,391

[1]Adjusted to exclude benefits for December 1981 that were paid on December 31, 1981 rather than January 3, 1982 which was a Sunday. These benefits are included in the 1982 figure so that amounts for 1981 and 1982 each reflect 12 months of benefit payments and are comparable to figures for other calendar years.

[2]Includes $7,036 million assumed to be borrowed from the DI and HI Trust Funds under the interfund borrowing provisions.

[3]Includes $11,060 million assumed to be borrowed from the DI and HI Trust Funds under the interfund borrowing provisions.

NOTE: Projections do not reflect the effects of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248)--see Table 5 for summarized cost estimates including such effects.

SOURCE: Table 20 in OASDI Trustees Report

Table 3C

OPERATIONS OF THE DI TRUST FUND DURING SELECTED CALENDAR YEARS 1960-81 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1982-86 UNDER THE INTERMEDIATE SETS OF ASSUMPTIONS
[In millions]

	Income				Disbursements						
Calendar year	Total	Contributions, less refunds	Reimbursements from the general fund of Treasury for costs of noncontributory credits for military service	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to Railroad Retirement Account	Net increase in fund	Fund at end of period
Past experience:											
1960	$1,063	$1,010	—	$53	$600	$568	—	$36	-$5	$464	$2,269
1965	1,247	1,188	—	59	1,687	1,573	—	90	24	-440	1,606
1970	4,774	4,481	$16	277	3,259	3,067	$18	164	10	1,514	5,614
1975	8,035	7,444	90	502	8,790	8,414	91	256	29	-754	7,354
1976	8,757	8,233	103	422	10,366	9,966	89	285	26	-1,609	5,745
1977	9,570	9,138	128	304	11,945	11,463	84	399	(1)	-2,375	3,370
1978	13,810	13,413	142	256	12,954	12,513	86	325	30	856	4,226
1979	15,590	15,114	118	358	14,186	13,708	78	371	30	1,404	5,630
1980	13,871	13,255	130	485	15,872	15,437	78	368	-12	-2,001	3,629
1981	17,078	16,738	168	172	17,658	[2]17,200	-8	436	29	-580	3,049
Estimated future experience:											
Alternative II-A:											
1982	[3]17,020	22,555	174	548	18,517	17,677	145	645	50	-1,497	1,552
1983	26,624	25,052	180	1,392	18,996	18,246	10	723	17	7,627	9,180
1984	29,723	27,228	184	2,311	19,670	18,914	12	735	9	10,053	19,232
1985	37,929	34,083	189	3,657	20,573	19,782	10	768	13	17,356	36,588
1986	42,926	37,459	158	5,309	21,639	20,832	8	819	-21	21,287	57,875
Alternative II-B:											
1982	[4]17,010	22,066	174	517	18,508	17,668	145	645	50	-1,498	1,551
1983	26,124	24,753	180	1,191	19,073	18,320	10	723	20	7,051	8,602
1984	29,496	27,333	185	1,978	20,099	19,327	12	748	12	9,397	17,999
1985	37,329	34,148	191	2,990	21,459	20,831	10	802	16	15,870	33,869
1986	41,799	37,406	154	4,239	22,864	22,020	9	846	-11	18,935	52,804

[1]Less than $500,000 was transferred from the Railroad Retirement Account to the DI Trust Fund.

[2]Adjusted to exclude benefits for December 1981 that were paid on December 31, 1981 rather than January 3, 1982 which was a Sunday. These benefits are included in the 1982 figure so that amounts for 1981 and 1982 each reflect 12 months of benefit payments and are comparable to figures for other calendar years.

[3]Excludes $6,257 million assumed to be loaned to the OASI Trust Fund under the interfund borrowing provisions.

[4]Excludes $5,747 million assumed to be loaned to the OASI Trust Fund under the interfund borrowing provisions.

NOTE: Projections do not reflect the effects of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248)--see Table 5 for summarized cost estimates including such effects.

SOURCE: Table 22 in 1982 OASDI Trustees Report

Table 3D

OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-84
(In millions)

Calendar Year	Income: Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Reimbursement for PSRO review	Interest on investments	Total income	Disbursements: Benefits payments	Administrative expenses1/	Total disbursements	Trust Fund: Net increase in fund	Fund at end of year
Historical Data:													
1966	$ 1,858	$ 16	$ 26		$ 11		$ 32	$ 1,943	$ 891	$108	$ 999	$ 944	$ 944
1967	3,152	44	301		11		51	3,559	3,353	77	3,430	129	1,073
1968	4,116	54	1,022		22		74	5,287	4,179	99	4,277	1,010	2,083
1969	4,473	64	617		11		113	5,279	4,739	118	4,857	422	2,505
1970	4,881	66	863		11		158	5,979	5,124	157	5,281	698	3,202
1971	4,921	66	503		48		193	5,732	5,751	150	5,900	-168	3,034
1972	5,731	63	381		48		180	6,403	6,318	185	6,503	-99	2,935
1973	9,944	99	451	$ 2	48		278	10,821	7,057	232	7,289	3,532	6,467
1974	10,844	132	471	5	48		523	12,024	9,099	272	9,372	2,652	9,119
1975	11,502	138	621	7	48		664	12,980	11,315	266	11,581	1,399	10,517
1976	12,727	143	0 2/	9	141		746	13,766	13,340	339	13,679	88	10,605
1977	14,114	0 3/	803 2/	12	143 4/		784	15,856	15,737	283	16,019	-163	10,442
1978	17,324	214 3/	688	13	141	$29	805	19,213	17,682	496	18,178	1,035	11,477
1979	20,768	191	734	16	141	33	942	22,825	20,623	450	21,073	1,751	13,228
1980	23,848	244	697	18	141	33	1,116	26,097	25,064	512	25,577	521	13,749
1981	32,959	276	659	22	207	34	1,569	35,725	30,342	384	30,726	4,999	18,748
Projection:													
Alternative II-A													
1982	35,474	344	808	27	207	0	2,058	38,139 5/	35,097	573	35,670	2,469	21,217
1983	38,904	382	889	34	207	0	2,408	42,824	40,439	616	41,055	1,769	22,986
1984	42,285	398	770	40	207	0	2,539	46,239	45,951	657	46,608	-369	22,617
Alternative II-B													
1982	34,702	344	808	27	207	0	2,022	32,797 5/	35,097	573	35,670	-2,873	15,875
1983	38,463	375	889	34	207	0	2,269	42,237	40,995	627	41,622	615	16,490
1984	42,476	392	795	40	207	0	2,235	46,145	47,587	685	48,272	-2,127	14,363

1/ Includes costs of experiments and demonstration projects.

2/ No transfer is made in 1976 because of the change in transfer dates from December to March. The 1977 transfer is for benefits and administrative expenses during the 15-month period beginning July 1976 and ending September 1977.

3/ No transfer is made in 1977 because of the change in transfer dates from August to June. The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.

4/ Includes $2 million in reimbursement form general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II.

5/ Total income for 1982 is reduced by the amounts assumed to be loaned on December 31, 1982, by the HI Trust Fund under the interfund borrowing provisions. These amounts are $779 million and $5,313 million under alternatives II-A and II-B, respectively.

NOTE: Projections do not reflect the effects of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248)--see Table 5 for summarized cost estimates including such effects.

SOURCE: Table 6 in 1982 HI Trustees Report

Table 4

HISTORICAL LEVELS OF TRUST-FUND RATIOS FOR

OASI, DI, AND HI TRUST FUNDS

ASSETS AT THE BEGINNING OF THE YEAR AS A PERCENTAGE OF EXPENDITURES DURING THE YEAR, FOR THE OASDI PROGRAM, BY TRUST FUND, FOR SELECTED CALENDAR YEARS 1950-81

Calendar year	OASI and DI Trust Funds, combined	OASI Trust Fund	DI Trust Fund
1950	1,156	1,156	—
1955	405	405	—
1960	186	180	304
1965	110	109	121
1970	103	101	126
1975	66	63	92
1976	57	54	71
1977	47	47	48
1978	37	39	26
1979	30	30	30
1980	25	23	35
1981	18	18	21

RATIO OF ASSETS IN THE FUND AT THE BEGINNING OF THE YEAR TO DISBURSEMENTS DURING THE YEAR FOR THE HOSPITAL INSURANCE TRUST FUND
(In percent)

Calendar Year	Ratio
1967	28%
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
1975	79
1976	77
1977	66
1978	57
1979	54
1980	52
1981	45

SOURCE: Table 16 in 1982 OASDI Trustees Report and Table 7 in 1982 HI Trustees Report

Table 5A

Estimated operations of the OASI, DI, and HI Trust Funds under the program as modified by the Tax Equity and Fiscal Responsibility Act of 1982, on the basis of the 1982 Trustees Report alternative II-B assumptions, calendar years 1981-91

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1981	$125.4	$17.1	$142.4	$35.7	$178.2	$126.7	$17.7	$144.4	$30.7	$175.1
1982	137.7	16.6	154.3	32.6	187.0	141.9	18.1	160.0	35.6	195.6
1983	136.5	26.1	162.6	44.0	206.6	156.5	19.0	175.5	40.8	216.3
1984	149.2	29.6	178.8	48.4	227.2	173.0	19.9	192.9	46.3	239.2
1985	167.3	37.5	204.8	54.5	259.3	190.9	21.3	212.2	51.9	264.1
1986	180.9	42.0	222.9	63.2	286.1	208.5	22.7	231.2	58.8	290.0
1987	194.5	46.5	241.0	68.5	309.5	226.3	24.2	250.6	66.9	317.5
1988	209.1	51.3	260.4	73.8	334.2	244.5	25.8	270.3	76.0	346.4
1989	223.9	56.5	280.4	78.9	359.3	263.2	27.6	290.8	86.1	376.9
1990	257.0	69.6	326.7	83.8	410.5	282.2	29.4	311.6	96.8	408.4
1991	275.7	76.7	352.4	88.5	440.9	300.8	31.4	332.1	108.7	440.8

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1981	-$1.3	-$0.6	-$1.9	$5.0	$3.1	$21.5	$3.0	$24.5	$18.7	$43.3	18%	21%	18%	45%	23%
1982	-4.2	-1.5	-5.7	-3.0	-8.6	17.3	1.6	18.9	15.8	34.6	15	17	15	53	22
1983	-20.0	7.1	-12.8	3.2	-9.6	-2.6	8.7	6.1	19.0	25.0	11	8	11	39	16
1984	-23.8	9.7	-14.1	2.1	-12.0	-26.4	18.4	-8.0	21.0	13.0	-2	44	3	41	10
1985	-23.6	16.2	-7.4	2.6	-4.8	-50.0	34.6	-15.4	23.6	8.2	-14	86	-4	41	5
1986	-27.6	19.2	-8.4	4.4	-3.9	-77.6	53.8	-23.8	28.0	4.3	-24	152	-7	40	3
1987	-31.8	22.2	-9.6	1.6	-7.9	-109.4	76.1	-33.4	29.7	-3.7	-34	222	-9	42	1
1988	-35.4	25.5	-9.9	-2.3	-12.2	-144.9	101.6	-43.3	27.4	-15.9	-45	294	-12	39	-1
1989	-39.3	28.9	-10.4	-7.2	-17.7	-184.2	130.4	-53.7	20.2	-33.6	-55	368	-15	32	-4
1990	-25.1	40.2	15.1	-13.0	2.1	-209.3	170.6	-38.7	7.2	-31.5	-65	443	-17	21	-8
1991	-25.1	45.4	20.3	-20.2	.1	-234.4	216.0	-18.4	-13.0	-31.4	-70	544	-12	7	-7

Notes: 1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. Under this set of assumptions, a total of $11.6 billion would be transferred to OASI in 1982, $6.2 billion from DI and $5.5 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1991 are theoretical, since the fund would be depleted in 1991 under this set of assumptions.

Table 5B

Estimated operations of the OASI, DI, and HI Trust Funds under the program as modified by the Tax Equity and Fiscal Responsibility Act of 1982, on the basis of the 1982 Trustees Report alternative III assumptions, calendar years 1981-91

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1981	$125.4	$17.1	$142.4	$35.7	$178.2	$126.7	$17.7	$144.4	$30.7	$175.1
1982	138.4	16.6	155.1	31.8	186.9	141.9	18.1	160.0	35.6	195.6
1983	133.3	25.6	158.9	43.0	201.9	157.7	19.1	176.8	40.8	217.6
1984	142.9	28.7	171.6	47.0	218.6	177.2	20.3	197.5	46.7	244.2
1985	162.3	37.1	199.4	53.7	253.2	199.8	22.2	222.0	54.2	276.3
1986	177.3	42.4	219.7	63.1	282.8	224.0	24.3	248.3	63.7	312.0
1987	192.6	48.0	240.6	69.3	309.9	250.2	26.5	276.6	75.2	351.9
1988	208.8	54.0	262.8	75.3	338.2	277.7	28.9	306.6	88.7	395.3
1989	225.6	60.6	286.2	81.1	367.3	306.8	31.6	338.4	104.2	442.6
1990	262.5	76.1	338.5	86.5	425.0	337.5	34.4	372.0	121.7	493.6
1991	285.0	85.6	370.5	91.5	462.0	369.4	37.6	406.9	142.0	548.9

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1981	-$1.3	-$0.6	-$1.9	$5.0	$3.1	$21.5	$3.0	$24.5	$18.7	$43.3	18%	21%	18%	45%	23%
1982	-3.5	-1.5	-5.0	-3.8	-8.7	18.0	1.6	19.6	15.0	34.5	15	17	15	53	22
1983	-24.4	6.5	-17.9	2.2	-15.6	-6.4	8.1	1.7	17.2	18.9	11	8	11	37	16
1984	-34.3	8.4	-25.9	.2	-25.7	-40.7	16.4	-24.3	17.5	-6.8	-4	40	1	37	8
1985	-37.5	14.9	-22.6	-.5	-23.1	-78.2	31.4	-46.8	17.0	-29.9	-20	74	-11	32	-2
1986	-46.7	18.2	-28.5	-.6	-29.1	-124.9	49.5	-75.4	16.4	-59.0	-35	129	-19	27	-10
1987	-57.6	21.5	-36.1	-5.9	-42.0	-182.5	71.0	-111.4	10.5	-101.0	-50	187	-27	22	-17
1988	-68.9	25.1	-43.8	-13.3	-57.1	-251.3	96.1	-155.2	-2.9	-158.1	-66	246	-36	12	-26
1989	-81.2	29.0	-52.2	-23.1	-75.3	-332.6	125.1	-207.4	-26.0	-233.4	-82	305	-46	-3	-36
1990	-75.1	41.6	-33.5	-35.2	-68.6	-407.6	166.8	-240.9	-61.1	-302.0	-99	363	-56	-21	-47
1991	-84.4	48.0	-36.4	-50.5	-87.0	-492.0	214.8	-277.3	-111.7	-389.0	-110	444	-59	-43	-55

Notes: 1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. Under this set of assumptions, a total of $12.4 billion would be transferred to OASI in 1982, $6.1 billion from DI and $6.3 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1988 and later are theoretical, since the fund would be depleted in 1988 under this set of assumptions.

Table 5C

Estimated operations of the OASI and DI Trust Funds under the program as modified by the Tax Equity and Fiscal Responsibility Act of 1982, on the basis of the 1982 Trustees Report alternative I assumptions, calendar years 1981-91

(Amounts in billions)

Calendar year	Income			Outgo		
	OASI	DI	OASDI	OASI	DI	OASDI
1981	$125.4	$17.1	$142.4	$126.7	$17.7	$144.4
1982	136.2	16.6	152.9	141.8	18.1	160.0
1983	140.1	26.6	166.7	155.2	18.8	174.1
1984	154.5	30.2	184.8	168.3	19.4	187.6
1985	175.4	38.4	213.8	181.1	20.3	201.4
1986	191.2	43.0	234.2	193.5	21.3	214.7
1987	207.6	47.6	255.2	206.0	22.3	228.4
1988	224.4	52.4	276.8	218.2	23.5	241.7
1989	241.4	57.3	298.7	227.1	24.4	251.5
1990	274.9	69.7	344.6	238.8	25.7	264.6
1991	296.7	76.5	373.2	250.9	27.3	278.2

	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1981	-$1.3	-$0.6	-$1.9	$21.5	$3.0	$24.5	18%	21%	18%
1982	-5.6	-1.5	-7.1	15.9	1.6	17.5	15	17	15
1983	-15.1	7.8	-7.3	.8	9.4	10.1	10	8	10
1984	-13.7	10.9	-2.9	-13.0	20.2	7.3	(1/)	48	5
1985	-5.7	18.2	12.5	-18.6	38.4	19.8	-7	100	4
1986	-2.2	21.7	19.5	-20.9	60.1	39.2	-10	180	9
1987	1.6	25.3	26.9	-19.3	85.4	66.1	-10	269	17
1988	6.2	28.9	35.0	-13.1	114.2	101.1	-9	363	27
1989	14.3	32.9	47.2	1.2	147.1	148.3	-6	468	40
1990	36.1	44.0	80.0	37.3	191.1	228.4	1	572	56
1991	45.8	49.2	95.0	83.1	240.3	323.4	15	701	82

1/ Between 0.0 percent and 0.5 percent.

Notes: 1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. Under this set of assumptions, a total of $9.6 billion would be transferred to OASI in 1982, $6.2 billion from DI and $3.4 billion from HI.

2. The estimated operations for OASI and OASI and DI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due.

Note: Health Care Financing Administration was unable to supply HI cost estimates.

Table 5D

--Estimated operations of the OASI and DI Trust Funds under the program as modified by the Tax Equity and Fiscal Responsibility Act of 1982, on the basis of the 1982 Trustees Report alternative II-A assumptions, calendar years 1981-91

(Amounts in billions)

Calendar year	Income			Outgo		
	OASI	DI	OASDI	OASI	DI	OASDI
1981	$125.4	$17.1	$142.4	$126.7	$17.7	$144.4
1982	136.6	16.7	153.2	141.9	18.1	160.0
1983	138.3	26.5	164.9	155.7	18.9	174.6
1984	148.9	29.8	178.7	169.1	19.5	188.6
1985	167.4	38.0	205.4	182.4	20.4	202.9
1986	182.0	43.0	225.0	196.1	21.5	217.6
1987	198.0	48.0	246.1	210.6	22.8	233.3
1988	215.2	53.2	268.3	225.6	24.2	249.8
1989	232.4	58.5	290.9	241.2	25.8	267.0
1990	268.3	71.9	340.2	256.8	27.5	284.3
1991	289.0	78.9	367.9	271.9	29.3	301.2

	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1981	-$1.3	-$0.6	-$1.9	$21.5	$3.0	$24.5	18%	21%	18%
1982	-5.3	-1.5	-6.8	16.2	1.6	17.8	15	17	15
1983	-17.4	7.7	-9.8	-1.2	9.2	8.0	10	8	10
1984	-20.3	10.3	-10.0	-21.5	19.5	-2.0	-1	47	4
1985	-15.1	17.6	2.5	-36.5	37.1	.6	-12	96	-1
1986	-14.1	21.5	7.4	-50.6	58.6	8.0	-19	172	(1/)
1987	-12.5	25.3	12.7	-63.2	83.9	20.7	-24	258	3
1988	-10.5	29.0	18.5	-73.6	112.8	39.2	-28	347	8
1989	-8.8	32.7	23.9	-82.4	145.5	63.1	-31	438	15
1990	11.6	44.4	56.0	-70.9	189.9	119.1	-32	529	22
1991	17.1	49.6	66.6	-53.8	239.5	185.7	-26	647	40

1/ Between 0.0 percent and 0.5 percent.

Notes: 1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. Under this set of assumptions, a total of $10.0 billion would be transferred to OASI in 1982, $6.2 billion from DI and $3.7 billion from HI.

2. The estimated operations for OASI and OASI and DI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due.

Note: Health Care Financing Administration was unable to supply HI cost estimates.

Table 6

LONG-RANGE STATUS OF OASDI-HI TRUST FUNDS

COMPARISON OF ESTIMATED AVERAGE COST RATE WITH AVERAGE TAX RATE BY ALTERNATIVE AND TRUST FUND
[As percent of taxable payroll]

Calendar years	Average tax rate	Estimated average cost rate by alternative				Difference by alternative			
		I	II-A	II-B	III	I	II-A	II-B	III
OASI:									
1982-2006	9.93	8.64	9.31	10.14	11.37	1.29	0.63	-0.21	-1.44
2007-31	10.20	9.84	11.58	12.43	15.83	.36	-1.38	-2.23	-5.63
2032-56	10.20	10.58	14.11	15.20	23.60	-.38	-3.91	-5.00	-13.40
1982-2056	10.11	9.69	11.66	12.59	16.93	.42	-1.55	-2.48	-6.82
DI:									
1982-2006	2.07	1.11	1.16	1.23	1.36	.97	.92	.85	.72
2007-31	2.20	1.45	1.57	1.65	2.00	.75	.63	.55	.20
2032-56	2.20	1.30	1.54	1.61	2.07	.90	.66	.59	.13
1982-2056	2.16	1.29	1.42	1.50	1.81	.87	.73	.66	.35
Total:									
1982-2006	12.01	9.75	10.46	11.37	12.73	2.26	1.55	.64	-.72
2007-31	12.40	11.30	13.15	14.08	17.84	1.10	-.75	-1.68	-5.44
2032-56	12.40	11.88	15.65	16.81	25.66	.52	-3.25	-4.41	-13.26
1982-2056	12.27	10.98	13.09	14.09	18.74	1.29	-.82	-1.82	-6.47

Note: The definitions of alternatives I, II-A, II-B, and III, cost rate, tax rate, and taxable payroll are presented in the text. Totals do not necessarily equal the sum of rounded components.

ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS a/

(Percent of Taxable Payroll)

	Alternative			
	I	II-A	II-B	III
Average contribution rate, scheduled under present law b/	2.86%	2.86%	2.86%	2.86%
Average cost of the program, for expenditures and for trust fund maintenance c/	3.72 a/	4.49 a/	4.93 a/	6.59 a/
Actuarial balance	-0.86	-1.63	-2.07	-3.73

a/ Does not reflect the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). When the effect of this legislation is taken into account, the average 25-year cost exclusive of trust-fund building and maintenance under Alternative II-B is 4.34% of taxable payroll (as contrasted with the comparable figure of 4.83% before enactment of such legislation).

b/ Average for the 25-year period, 1982-2006.

c/ Average for the 25-year period, 1982-2006, expressed as a percentage of taxable payroll.

NOTE: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

SOURCE: 1982 OASDI-HI Trustees Report.

Table 7A

ESTIMATED COST RATES OF THE OASDI SYSTEM UNDER ALTERNATIVES II-A AND II-B AND COMPARISON WITH TAX RATES, CALENDAR YEARS 1982-2060
[As percent of taxable payroll]

Calendar year	Estimated cost rate			Tax rate	Difference[1]
	OASI	DI	Total		
Alternative II-A:					
1982	10.18	1.33	11.51	10.80	-0.71
1983	10.21	1.25	11.46	10.80	-.66
1984	10.22	1.19	11.41	10.80	-.61
1985	10.07	1.13	11.20	11.40	.20
1986	9.91	1.09	11.00	11.40	.40
1987	9.75	1.06	10.81	11.40	.59
1988	9.63	1.03	10.66	11.40	.74
1989	9.53	1.02	10.55	11.40	.85
1990	9.45	1.01	10.47	12.40	1.93
1991	9.38	1.01	10.39	12.40	2.01
1992	9.35	1.03	10.37	12.40	2.03
1993	9.33	1.04	10.37	12.40	2.03
1994	9.29	1.05	10.35	12.40	2.05
1995	9.25	1.07	10.32	12.40	2.08
1996	9.15	1.10	10.25	12.40	2.15
1997	9.07	1.13	10.20	12.40	2.20
1998	9.00	1.16	10.15	12.40	2.25
1999	8.92	1.18	10.10	12.40	2.30
2000	8.82	1.20	10.03	12.40	2.37
2001	8.73	1.23	9.96	12.40	2.44
2002	8.68	1.25	9.93	12.40	2.47
2003	8.66	1.28	9.94	12.40	2.46
2004	8.65	1.32	9.97	12.40	2.43
2005	8.68	1.37	10.06	12.40	2.34
2006	8.72	1.39	10.11	12.40	2.29
2010	9.17	1.52	10.69	12.40	1.71
2015	10.35	1.61	11.96	12.40	.44
2020	11.88	1.65	13.53	12.40	-1.13
2025	13.36	1.61	14.96	12.40	-2.56
2030	14.22	1.53	15.75	12.40	-3.35
2035	14.39	1.50	15.89	12.40	-3.49
2040	14.12	1.52	15.64	12.40	-3.24
2045	13.93	1.56	15.48	12.40	-3.08
2050	13.98	1.55	15.53	12.40	-3.13
2055	14.10	1.53	15.63	12.40	-3.23
2060	14.12	1.52	15.63	12.40	-3.23
25-year averages:					
1982-2006	9.31	1.16	10.46	12.01	1.55
2007-2031	11.58	1.57	13.15	12.40	-.75
2032-2056	14.11	1.54	15.65	12.40	-3.25
75-year average:					
1982-2056	11.66	1.42	13.09	12.27	-.82
Alternative II-B:					
1982	10.42	1.36	11.78	10.80	-0.98
1983	10.38	1.27	11.65	10.80	-.85
1984	10.42	1.21	11.63	10.80	-.83
1985	10.52	1.18	11.70	11.40	-.30
1988	10.55	1.16	11.71	11.40	-.31
1987	10.57	1.14	11.71	11.40	-.31
1988	10.56	1.12	11.68	11.40	-.28
1989	10.55	1.11	11.66	11.40	-.26
1990	10.54	1.10	11.64	12.40	.76
1991	10.49	1.10	11.59	12.40	.81
1992	10.43	1.11	11.54	12.40	.86
1993	10.39	1.12	11.51	12.40	.89
1994	10.33	1.13	11.46	12.40	.94
1995	10.27	1.14	11.42	12.40	.98
1996	10.18	1.17	11.35	12.40	1.05
1997	10.07	1.20	11.27	12.40	1.13
1998	9.96	1.23	11.19	12.40	1.21
1999	9.85	1.25	11.10	12.40	1.30
2000	9.75	1.28	11.03	12.40	1.37
2001	9.66	1.30	10.96	12.40	1.44
2002	9.58	1.32	10.90	12.40	1.50
2003	9.52	1.35	10.87	12.40	1.53
2004	9.48	1.39	10.87	12.40	1.53
2005	9.50	1.44	10.95	12.40	1.45
2006	9.53	1.46	10.99	12.40	1.41
2010	9.94	1.59	11.53	12.40	.87
2015	11.12	1.69	12.82	12.40	-.42
2020	12.72	1.73	14.44	12.40	-2.04
2025	14.29	1.68	15.97	12.40	-3.57
2030	15.23	1.60	16.83	12.40	-4.43
2035	15.45	1.57	17.02	12.40	-4.62
2040	15.20	1.59	16.80	12.40	-4.40
2045	15.03	1.63	16.66	12.40	-4.26
2050	15.09	1.63	16.72	12.40	-4.32
2055	15.21	1.60	16.81	12.40	-4.41
2060	15.22	1.59	16.81	12.40	-4.41
25-year averages:					
1982-2006	10.14	1.23	11.37	12.01	.64
2007-2031	12.43	1.65	14.08	12.40	-1.68
2032-2056	15.20	1.61	16.81	12.40	-4.41
75-year average:					
1982-2056	12.59	1.50	14.09	12.27	-1.82

[1]The tax rate minus the OASDI cost rate. Positive differences are referred to as surpluses, and negative differences, as deficits.

NOTE: These estimates do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). If this had been done, the cost rates would have been slightly lower.

SOURCE: Table 27 of 1982 OASDI Trustees Report
Appendix K, page 71

Table 7B

ESTIMATED COST RATES OF HI AND OASDI-HI PROGRAMS UNDER ALTERNATIVE II-B AND COMPARISON WITH TAX RATES, 1986-2055
(as percent of taxable payroll)

Calendar Year	HI Program			OASDI-HI Program		
	Cost Rate a/	Tax Rate b/	Difference c/	Cost Rate	Tax Rate b/	Difference c/
1982	2.97%	2.60%	-.37%	14.75%	13.40%	-1.35%
1985	2.74	2.70	-.04	14.44	14.10	-.34
1990	3.51	2.90	-.61	15.15	15.30	+.15
1995	4.47	2.90	-1.57	15.89	15.30	-.59
2000	5.38	2.90	-2.48	16.41	15.30	-1.11
2005	6.29	2.90	-3.39	17.24	15.30	-1.94
2010	7.20	2.90	-4.30	18.73	15.30	-3.43
2015	7.94	2.90	-5.04	20.76	15.30	-5.46
2020	8.89	2.90	-5.99	23.33	15.30	-8.03
2025	9.93	2.90	-7.03	25.90	15.30	-10.60
2030	10.76	2.90	-7.86	27.59	15.30	-12.29
2035	11.17	2.90	-8.27	28.19	15.30	-12.89
2040	11.29	2.90	-8.39	28.09	15.30	-12.79
2045	11.21	2.90	-8.31	27.87	15.30	-12.57
2050	11.19	2.90	-8.29	27.91	15.30	-12.61
2055	11.17	2.90	-8.27	27.98	15.30	-12.68
Averages						
1982-2006	4.34	2.86	-1.48	15.71	14.87	-.84
2007-31	8.78	2.90	-5.88	22.86	15.30	-7.56
2032-56	11.19	2.90	-8.29	28.00	15.30	-12.70
1982-2056	8.10	2.89	-5.21	22.19	15.16	-7.03

a/ These cost rates do not include any allowance for building up and maintaining the trust-fund ratio at 50% (which would require an additional .10% of taxable payroll in 1982-2006).

b/ For employer and employee combined.

c/ Tax rate minus cost rate. Positive differences are referred to as cash-flow surpluses, and negative differences as deficits.

NOTE: These estimates for OASDI do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), but those for HI do take this legislation into account. If this had been done, the cost rates for OASDI-HI would have been slightly lower.

SOURCE: Table 27 of the 1982 OASDI Trustees Report and Table 8 of the 1982 HI Trustees Report (extended beyond 2005 by Health Care Financing Administration under assumption that, then, hospital costs rise at the same rate as wages), in all cases reduced to allow for the effect of P.L. 97-248 (a reduction of about 10½% in all years after 1982).

Table 7C

ESTIMATED COST RATES OF OASDI PROGRAM UNDER ALTERNATIVES II-B AND III AND COMPARISON WITH TAX RATES, 1982-2055
(as percent of taxable payroll)

Calendar Year	OASDI Tax Rate a/	Alternative II-B Cost Rate	Alternative II-B Difference b/	Alternative III Cost Rate	Alternative III Difference b/
1982	10.80%	11.78%	-.98%	11.83%	-1.03%
1985	11.40	11.70	-.30	12.40	-1.00
1990	12.40	11.64	+.76	12.85	-.45
1995	12.40	11.42	+.98	12.97	-.57
2000	12.40	11.03	+1.37	12.82	-.42
2005	12.40	10.95	+1.45	12.97	-.57
2010	12.40	11.53	+.87	13.92	-1.52
2015	12.40	12.82	-.42	15.76	-3.36
2020	12.40	14.44	-2.04	18.17	-5.77
2025	12.40	15.97	-3.57	20.70	-8.30
2030	12.40	16.83	-4.43	22.63	-10.23
2035	12.40	17.02	-4.62	23.94	-11.54
2040	12.40	16.80	-4.40	24.80	-12.40
2045	12.40	16.66	-4.26	25.80	-13.40
2050	12.40	16.72	-4.32	26.93	-14.53
2055	12.40	16.81	-4.41	27.87	-15.47
Averages					
1982-2006	12.01	11.37	+.64	12.73	-.72
2007-31	12.40	14.08	-1.68	17.84	-5.44
2032-56	12.40	16.81	-4.41	25.66	-13.26
1982-2056	12.27	14.09	-1.82	18.74	-6.47

a/ For employer and employee combined.

b/ Tax rate minus cost rate. Positive differences are referred to as cash-flow surpluses, and negative differences as deficits.

NOTE: These estimates do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). If this had been done, the cost rates would have been slightly lower.

SOURCE: Tables 27 and 29 of the 1982 OASDI Trustees Report.

Table 8

ESTIMATED TRUST FUND RATIOS BY ALTERNATIVE AND TRUST FUND, CALENDAR YEARS 1982-2060

Calendar year	Alternative I			Alternative II-A			Alternative II-B			Alternative III		
	OASI	DI	Total	OASI	DI	Total	OASI	DI	Total	OASI	DI	Total
1982	15	16	15	15	16	15	15	16	15	15	16	15
1983	10	8	10	10	8	10	11	8	10	11	8	11
1984	1	48	6	(1)	47	4	(2)	43	3	(2)	39	1
1985	-7	98	4	-11	93	(1)	(2)	84	-4	(2)	71	(2)
1986	-10	178	9	-18	169	(3)	(2)	148	-7	(2)	125	(2)
1987	-10	265	17	-24	253	3	(2)	217	-10	(2)	181	(2)
1988	-9	359	27	-28	342	8	(2)	288	-13	(2)	239	(2)
1989	-6	464	40	-30	432	15	(2)	361	-16	(2)	297	(2)
1990	(3)	567	56	-32	524	22	(2)	436	-19	(2)	356	(2)
1991	15	696	82	-26	642	39	(2)	536	-13	(2)	436	(2)
1992	31	811	110	-18	753	58	(2)	631	-7	(2)	509	(2)
1993	47	934	138	-10	859	77	(2)	723	(2)	(2)	577	(2)
1994	65	1,041	167	(1)	961	97	(2)	812	7	(2)	643	(2)
1995	84	1,137	197	8	1,054	116	(2)	895	15	(2)	705	(2)
1996	104	1,208	228	18	1,122	136	(2)	959	23	(2)	755	(2)
1997	127	1,278	260	29	1,187	157	(2)	1,019	32	(2)	799	(2)
1998	150	1,345	293	41	1,247	178	(2)	1,076	42	(2)	837	(2)
1999	175	1,411	326	52	1,317	200	(2)	1,130	53	(2)	871	(2)
2000	202	1,468	362	67	1,369	223	(2)	1,178	64	(2)	900	(2)
2001	232	1,532	400	82	1,421	247	(2)	1,227	76	(2)	927	(2)
2002	262	1,589	438	99	1,467	271	(2)	1,270	89	(2)	951	(2)
2003	293	1,630	474	116	1,502	295	(2)	1,303	102	(2)	967	(2)
2004	324	1,656	510	133	1,526	317	(2)	1,327	115	(2)	977	(2)
2005	354	1,656	542	149	1,531	338	(2)	1,332	128	(2)	976	(2)
2006	384	1,702	576	165	1,568	358	(2)	1,366	140	(2)	991	(2)
2010	485	1,797	684	216	1,645	419	(2)	1,435	177	(2)	1,005	(2)
2015	539	1,967	745	224	1,779	434	(2)	1,549	177	(2)	1,033	(2)
2020	520	2,198	739	168	1,962	387	(2)	1,703	125	(2)	1,076	(2)
2025	457	2,549	698	67	2,240	300	(2)	1,938	31	(2)	1,162	(2)
2030	386	3,000	662	(2)	2,595	196	(2)	2,241	(2)	(2)	1,287	(2)
2035	332	3,410	651	(2)	2,902	89	(2)	2,504	(2)	(2)	1,390	(2)
2040	304	3,735	675	(2)	3,123	(2)	(2)	2,693	(2)	(2)	1,456	(2)
2045	298	4,031	719	(2)	3,295	(2)	(2)	2,837	(2)	(2)	1,515	(2)
2050	301	4,443	766	(2)	3,558	(2)	(2)	3,061	(2)	(2)	1,619	(2)
2055	305	4,942	811	(2)	3,873	(2)	(2)	3,330	(2)	(2)	1,758	(2)
2060	311	5,435	860	(2)	4,168	(2)	(2)	3,582	(2)	(2)	1,910	(2)
Trust fund is projected to be first exhausted in:	1983	(4)	1983	1983	(4)	1983	1983	(4)	1983	1983	(4)	1983

[1]Between -0.5 percent and zero.

[2]The fund is projected to be exhausted and not to recover before the end of the projection period.

[3]Between zero and 0.5 percent.

[4]The fund is not projected to be exhausted within the projection period.

Note: The definitions of alternatives I, II-A, II-B, and III, and trust fund ratio are presented in the text. The ratios shown after the year a given fund is projected to be exhausted are theoretical and are shown for informational purposes only; see the section on "Estimated Operations and Status of the Trust Funds during the Period October 1, 1981 to December 31, 1986" for further discussion. In addition, the ratios for the total of the OASI and DI Trust Funds after 1982 are theoretical, also because under the current law, after 1982, the assets of one fund cannot be borrowed by another fund. The money assumed to be borrowed by the OASI Trust Fund in December 1982 is assumed to be repaid in 1992 under alternative I, in 1998 under alternative II-A, and not at any time in the long-range projection period under alternatives II-B and III.

NOTE: These estimates do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). If this had been done, the fund ratios would have been slightly higher.

SOURCE: Table 32 in 1982 OASDI Trustees Report

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Table 9A

ESTIMATED COST OF THE OASDI SYSTEM AS PERCENT OF GNP BY ALTERNATIVE, CALENDAR YEARS 1982-2060

Calendar year	I	II-A	II-B	III
1982	5.07	5.08	5.16	5.19
1983	4.93	4.97	5.05	5.26
1984	4.82	4.87	5.03	5.28
1985	4.72	4.78	5.05	5.28
1986	4.63	4.69	5.04	5.31
1987	4.55	4.62	5.03	5.34
1988	4.48	4.55	5.00	5.37
1989	4.35	4.51	4.97	5.38
1990	4.31	4.47	4.94	5.38
1991	4.27	4.44	4.91	5.38
1992	4.24	4.41	4.87	5.35
1993	4.25	4.39	4.84	5.34
1994	4.21	4.36	4.80	5.32
1995	4.17	4.33	4.76	5.32
1996	4.11	4.29	4.70	5.31
1997	4.07	4.25	4.65	5.27
1998	4.04	4.21	4.59	5.22
1999	4.00	4.17	4.53	5.17
2000	3.94	4.13	4.48	5.15
2001	3.89	4.08	4.44	5.12
2002	3.86	4.06	4.40	5.08
2003	3.84	4.05	4.37	5.07
2004	3.84	4.05	4.35	5.06
2005	3.86	4.08	4.36	5.09
2006	3.86	4.09	4.37	5.11
2010	4.00	4.27	4.51	5.33
2015	4.38	4.71	4.92	5.89
2020	4.83	5.25	5.44	6.63
2025	5.18	5.73	5.90	7.37
2030	5.26	5.94	6.10	7.87
2035	5.10	5.91	6.05	8.13
2040	4.82	5.74	5.86	8.23
2045	4.58	5.60	5.70	8.36
2050	4.45	5.54	5.62	8.52
2055	4.37	5.49	5.54	8.61
2060	4.28	5.42	5.44	8.60
25-year averages:				
1982-2006	4.25	4.40	4.75	5.25
2007-2031	4.67	5.11	5.30	6.50
2032-2056	4.70	5.67	5.78	8.34
75-year average:				
1982-2056	4.54	5.06	5.28	6.70

SOURCE: Table 30 in 1982 OASDI Trustees Report

TABLE 9B

ESTIMATED COST OF OASDI AND HI SYSTEMS AS PERCENT OF GNP UNDER ALTERNATIVE II-B, 1982-2050

Calendar Year	OASDI	HI	OASDI-HI
1982	5.16%	1.30%	6.46%
1985	5.05	1.18	6.23
1990	4.94	1.49	6.43
1995	4.76	1.90	6.66
2000	4.48	2.19	6.67
2005	4.36	2.50	6.86
2010	4.51	2.82	7.33
2015	4.92	3.05	7.97
2020	5.44	3.35	8.79
2025	5.90	3.67	9.57
2030	6.10	3.90	10.00
2035	6.05	3.97	10.02
2040	5.86	3.94	9.80
2045	5.70	3.84	9.54
2050	5.62	3.76	9.38
2055	5.54	3.68	9.22
Averages			
1982-2006	4.75	1.81	6.56
2007-31	5.30	3.30	8.60
2032-56	5.78	3.85	9.63
1982-2056	5.28	3.04	8.32

NOTE: These estimates for OASDI do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). If this had been done, the figures for the OASDI-HI system would have been slightly lower.

SOURCE: Derived from Tables 7A, 7B, and 9A.

Table 10A

ESTIMATED TOTAL INCREASE IN SOCIAL SECURITY TAX INCOME REQUIRED DURING CALENDAR YEARS 1983-87 TO REACH ALTERNATIVE TARGET LEVELS OF TRUST FUND ASSETS BY BEGINNING OF 1988, UNDER ALTERNATIVES II-B AND III OF 1982 TRUSTEES REPORT

(In billions)

Trust Fund	Asset Goal at Beginning of 1988 as Percentage of Expenditures in 1988			
	15%	25%	50%	75%
		Alternative II-B		
OASI	$121	$140	$192	$244
DI	--	--	--	--
HI	--	--	7	23
OASDI	59	81	138	196
OASDI-HI	46	74	150	222
		Alternative III		
OASI	181	204	266	324
DI	--	--	--	--
HI	3	11	29	48
OASDI	126	152	217	280
OASDI-HI	133	166	245	328

Notes:
1. The above estimates are based on the assumption that the target trust fund ratio would be approached in even steps between 1983 and 1988. Other patterns are possible and would lead to somewhat different estimates of the required tax increases.
2. The effects of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) are reflected in these estimates.
3. Where no estimate is shown, it indicates that the asset goal is exceeded under present law.

Table 10B

ESTIMATED TOTAL REDUCTION IN SOCIAL SECURITY BENEFITS REQUIRED DURING CALENDAR YEARS 1983-87 TO REACH ALTERNATIVE TARGET LEVELS OF TRUST FUND ASSETS BY THE BEGINNING OF 1988, UNDER ALTERNATIVES II-B AND III OF THE 1982 TRUSTEES REPORT

(In billions)

Trust Fund	Asset Goal at Beginning of 1988 as Percentage of Expenditures in 1988 1/			
	15%	25%	50%	75%
		Alternative II-B		
OASI	$116	$134	$175	$210
DI	--	--	--	--
HI	--	--	6	19
OASDI	59	79	128	172
OASDI-HI	44	72	134	190
		Alternative III		
OASI	175	193	234	271
DI	--	--	--	--
HI	2	9	24	37
OASDI	123	144	194	239
OASDI-HI	128	154	218	275

1/ Expenditures in 1988 are assumed to be reduced by about the same percentage as in 1983-87; the amount of the 1988 reduction is not included in the total reductions shown for 1983-87.

Notes:
1. The above estimates are based on the assumption that the target trust fund ratio would be approached in even steps between 1983 and 1988. Other patterns are possible and would lead to somewhat different estimates of the required benefit reductions.
2. The effects of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) are reflected in these estimates.
3. Where no estimate is shown, it indicates that the asset goal is exceeded under present law.

Table 10C

ESTIMATED TOTAL INCREASE IN OASDI TAX INCOME REQUIRED DURING 1983-89 TO REACH ALTERNATIVE TARGET LEVELS OF TRUST-FUND RATIOS BY BEGINNING OF 1988, UNDER ALTERNATIVES II-B AND III (IN BILLIONS)

Calendar Year	1988 Trust-Fund Ratio of 15%		1988 Trust-Fund Ratio of 25%	
	Alternative II-B Assumptions	Alternative III Assumptions	Alternative II-B Assumptions	Alternative III Assumptions
1983	$22	$26	$24	$27
1984	15	26	20	32
1985	7	20	11	25
1986	8	25	13	30
1987	8	30	14	39
1988	8	34	8	35
1989	7	40	8	40
1983-89	75	201	98	228

NOTE: The "trust-fund ratio" is the ratio of the balance in the OASDI Trust Funds on a particular date to the outgo in the next 12 months.

NOTE: The figures in this table do not include the repayment of the loan from the HI Trust Fund to the OASI Trust Fund in 1982 (about $5 billion).

NOTE: The figures do take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

Table 10D

ESTIMATED TOTAL REDUCTION IN OASDI BENEFIT OUTGO REQUIRED DURING 1983-89 TO REACH ALTERNATIVE TARGET LEVELS OF TRUST-FUND RATIOS BY BEGINNING OF 1988, UNDER ALTERNATIVES II-B AND III (IN BILLIONS)

Calendar Year	1988 Trust-Fund Ratio of 15%		1988 Trust-Fund Ratio of 25%	
	Alternative II-B Assumptions	Alternative III Assumptions	Alternative II-B Assumptions	Alternative III Assumptions
1983	$20	$23	$20	$23
1984	17	26	20	30
1985	7	22	13	26
1986	8	24	13	29
1987	8	29	14	37
1988	8	34	9	35
1989	9	44	10	46
1983-89	77	202	99	226

NOTE: The "trust-fund ratio" is the ratio of the balance in the OASDI Trust Funds on a particular date to the outgo in the next 12 months.

NOTE: The figures in this table do not include the repayment of the loan from the HI Trust Fund to the OASI Trust Fund in 1982 (about $5 billion).

NOTE: The figures do take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

Table 11

COMPARISON OF OASDI BENEFICIARIES AND COVERED WORKERS BY ALTERNATIVE, CALENDAR YEARS 1945-2060

Calendar year	Covered workers[1] (in thousands)	Beneficiaries[2] (in thousands)			Covered workers per OASDI beneficiary	Beneficiaries per 100 covered workers
		OASI	DI	Total		
1945	46,390	1,106	—	1,106	41.9	2
1950	48,280	2,930	—	2,930	16.5	6
1955	65,200	7,563	—	7,563	8.6	12
1960	72,530	13,740	522	14,262	5.1	20
1965	80,680	18,509	1,648	20,157	4.0	25
1970	93,090	22,618	2,568	25,186	3.6	28
1975	100,200	26,998	4,125	31,123	3.2	31
1980	[3]114,300	30,384	4,734	35,118	[3]3.3	[3]31
Alternative I:						
1982	116,004	31,476	4,370	35,845	3.2	31
1985	126,557	33,028	4,047	37,075	3.4	29
1990	137,093	36,069	4,053	40,122	3.4	29
1995	141,637	37,609	4,249	41,858	3.4	30
2000	146,513	38,585	4,803	43,388	3.4	30
2005	151,749	40,066	5,506	45,572	3.3	30
2010	155,761	43,234	6,140	49,374	3.2	32
2015	158,066	48,449	6,552	55,001	2.9	35
2020	159,891	54,608	6,722	61,330	2.6	38
2025	162,842	60,782	6,612	67,394	2.4	41
2030	167,424	64,647	6,404	71,051	2.4	42
2035	173,020	66,058	6,419	72,477	2.4	42
2040	178,967	65,587	6,679	72,266	2.5	40
2045	184,936	65,452	7,045	72,497	2.6	39
2050	191,223	66,554	7,289	73,843	2.6	39
2055	198,021	68,258	7,451	75,709	2.6	38
2060	205,183	69,974	7,676	77,650	2.6	38
Alternative II-A:						
1982	115,955	31,482	4,375	35,857	3.2	31
1985	124,328	33,106	4,060	37,166	3.3	30
1990	133,921	36,431	4,126	40,557	3.3	30
1995	138,773	38,410	4,487	42,897	3.2	31
2000	144,133	39,823	5,193	45,016	3.2	31
2005	148,771	41,745	6,031	47,776	3.1	32
2010	151,577	45,376	6,753	52,129	2.9	34
2015	152,296	51,070	7,205	58,275	2.6	38
2020	152,100	57,789	7,372	65,161	2.3	43
2025	152,505	64,578	7,218	71,796	2.1	47
2030	154,100	69,188	6,946	76,134	2.0	49
2035	156,276	71,317	6,894	78,211	2.0	50
2040	158,430	71,497	7,073	78,570	2.0	50
2045	160,219	71,893	7,316	79,209	2.0	49
2050	162,023	73,079	7,392	80,471	2.0	50
2055	164,080	74,378	7,377	81,755	2.0	50
2060	166,318	75,258	7,422	82,680	2.0	50
Alternative II-B:						
1982	115,308	31,483	4,374	35,857	3.2	31
1985	123,300	33,106	4,061	37,167	3.3	30
1990	132,410	36,428	4,138	40,566	3.3	31
1995	137,644	38,408	4,486	42,894	3.2	31
2000	142,248	39,814	5,191	45,005	3.2	32
2005	146,798	41,725	6,028	47,753	3.1	33
2010	149,515	45,359	6,748	52,107	2.9	35
2015	150,148	51,048	7,198	58,246	2.6	39
2020	149,873	57,753	7,361	65,114	2.3	43
2025	150,205	64,542	7,207	71,749	2.1	48
2030	151,750	69,138	6,934	76,072	2.0	50
2035	153,889	71,277	6,882	78,159	2.0	51
2040	156,015	71,440	7,061	78,501	2.0	50
2045	157,777	71,824	7,304	79,128	2.0	50
2050	159,545	73,034	7,380	80,414	2.0	50
2055	161,573	74,313	7,364	81,677	2.0	51
2060	163,778	75,215	7,410	82,625	2.0	50
Alternative III:						
1982	115,178	31,496	4,376	35,872	3.2	31
1985	121,330	33,255	4,079	37,334	3.2	31
1990	130,300	37,125	4,246	41,371	3.1	32
1995	135,944	40,013	4,714	44,727	3.0	33
2000	140,370	42,415	5,560	47,975	2.9	34
2005	144,254	45,360	6,510	51,870	2.8	36
2010	145,600	50,080	7,293	57,373	2.5	39
2015	144,295	56,934	7,759	64,693	2.2	45
2020	141,475	64,913	7,898	72,811	1.9	51
2025	138,631	73,154	7,683	80,837	1.7	58
2030	136,560	79,327	7,324	86,651	1.6	63
2035	134,724	83,133	7,172	90,305	1.5	67
2040	132,593	84,945	7,214	92,159	1.4	70
2045	129,844	86,866	7,252	94,118	1.4	72
2050	126,971	89,022	7,071	96,093	1.3	76
2055	124,339	90,398	6,796	97,194	1.3	78
2060	121,968	90,672	6,587	97,259	1.3	80

[1]Workers with taxable earnings at some time during the year.

[2]Beneficiaries with monthly benefits in current-payment status as of June 30.

[3]Preliminary.

Note: The definitions of alternatives I, II-A, II-B, and III are presented in the text. The numbers of beneficiaries do not include certain noninsured persons aged 72 and over with less than 3 quarters of coverage, the costs for whom are reimbursable to the OASI Trust Fund by the general fund of the Treasury. The number of such persons is estimated to be 69,500 as of June 30, 1982, and less than 1,000 by the turn of the century.

SOURCE: Table 28 in 1982 OASDI Trustees Report

Table 12

SELECTED DEMOGRAPHIC ASSUMPTIONS BY ALTERNATIVE, CALENDAR YEARS 1940 - 2060

Calendar year	Total fertility rate[1]	Life expectancy[2] At birth Male	At birth Female	At age 65 Male	At age 65 Female
Past experience:					
1940	2.23	61.1	65.6	12.0	13.7
1945	2.42	62.7	68.5	12.7	14.7
1950	3.03	65.5	71.2	12.9	15.4
1955	3.50	66.7	73.0	13.2	15.9
1960	3.61	66.7	73.4	13.0	16.1
1965	2.88	66.8	74.1	13.0	16.6
1970	2.43	67.1	74.9	13.2	17.2
1975	1.77	68.7	76.5	13.7	18.1
1976	1.74	69.0	76.7	13.8	18.1
1977	1.79	69.3	77.1	13.9	18.4
1978	1.76	69.5	77.2	14.0	18.4
1979	1.81	69.8	77.7	14.3	18.7
1980	1.84	69.8	77.7	14.3	18.7
Alternative I:					
1981	1.87	70.0	77.9	14.3	18.8
1982	1.89	70.1	78.0	14.4	18.9
1983	1.91	70.2	78.1	14.4	19.0
1984	1.93	70.3	78.2	14.5	19.0
1985	1.96	70.4	78.3	14.5	19.1
1990	2.07	70.9	78.9	14.8	19.4
1995	2.18	71.2	79.2	14.9	19.7
2000	2.29	71.4	79.4	15.0	19.8
2005	2.40	71.5	79.5	15.1	19.9
2010	2.40	71.6	79.6	15.2	20.0
2020	2.40	71.8	79.9	15.3	20.2
2030	2.40	72.0	80.1	15.5	20.4
2040	2.40	72.2	80.3	15.6	20.6
2050	2.40	72.4	80.6	15.7	20.8
2060	2.40	72.6	80.8	15.9	21.0
Alternatives II-A and II-B:					
1981	1.86	70.1	78.0	14.4	18.9
1982	1.87	70.4	78.3	14.5	19.1
1983	1.88	70.6	78.5	14.6	19.3
1984	1.89	70.8	78.7	14.7	19.4
1985	1.90	71.0	78.9	14.8	19.5
1990	1.95	71.9	80.0	15.3	20.3
1995	2.00	72.6	80.8	15.6	20.8
2000	2.05	72.9	81.1	15.8	21.1
2005	2.10	73.2	81.4	16.0	21.4
2010	2.10	73.4	81.6	16.1	21.6
2020	2.10	73.8	82.1	16.4	22.0
2030	2.10	74.2	82.6	16.7	22.4
2040	2.10	74.6	83.1	17.0	22.8
2050	2.10	75.0	83.6	17.3	23.2
2060	2.10	75.4	84.1	17.6	23.6
Alternative III:					
1981	1.84	70.3	78.3	14.5	19.1
1982	1.83	70.8	78.9	14.7	19.5
1983	1.83	71.3	79.4	14.9	19.8
1984	1.82	71.7	79.8	15.1	20.1
1985	1.82	72.1	80.2	15.3	20.4
1990	1.79	74.0	82.5	16.3	22.1
1995	1.76	75.3	84.1	17.0	23.5
2000	1.73	75.9	84.9	17.4	24.2
2005	1.70	76.4	85.5	17.8	24.7
2010	1.70	76.8	86.0	18.1	25.1
2020	1.70	77.7	87.2	18.8	26.1
2030	1.70	78.5	88.3	19.5	27.2
2040	1.70	79.4	89.5	20.1	28.2
2050	1.70	80.2	90.6	20.8	29.3
2060	1.70	81.0	91.8	21.5	30.4

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

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

SOURCE: Table 11, 1982 OASDI Trustees Report, and Office of the Actuary, SSA

Table 13

SELECTED ECONOMIC ASSUMPTIONS BY ALTERNATIVE, CALENDAR YEARS 1960-2060

Calendar year	Average annual percentage increase in— Real GNP[1]	Average wages in covered employment	Consumer price index	Real-wage differential[2] (percent)	Average annual interest rate[3] (percent)	Average annual unemployment rate[4] (percent)
Past experience:						
1960-64	4.0	3.4	1.3	2.1	3.7	5.7
1965-69	4.4	5.4	3.4	2.0	5.2	3.8
1970	-.2	4.9	5.9	-1.0	7.3	4.9
1971	3.4	4.9	4.3	.6	6.0	5.9
1972	5.7	7.3	3.3	4.0	5.9	5.6
1973	5.8	6.9	6.2	.7	6.6	4.9
1974	-.6	7.4	11.0	-3.6	7.5	5.6
1975	-1.1	6.6	9.1	-2.5	7.4	8.5
1976	5.4	[5]8.2	5.7	[5]2.5	7.1	7.7
1977	5.5	[5]8.0	6.5	[5]1.5	7.1	7.0
1978	4.8	[5]8.2	7.6	[5].6	8.2	6.0
1979	3.2	[5]8.8	11.4	[5]-2.6	9.1	5.8
1980	-.2	[5]8.6	13.5	[5]-4.9	11.0	7.1
Alternative I:						
1981	[6]2.1	8.8	10.3	-1.5	13.3	7.6
1982	1.1	8.2	6.3	1.9	12.7	8.6
1983	5.6	7.3	5.9	1.4	10.3	7.4
1984	5.4	7.5	4.6	2.9	7.8	6.5
1985	5.1	7.0	4.2	2.8	6.6	5.8
1986	4.8	6.7	3.8	2.9	6.0	5.4
1987	4.6	6.4	3.4	3.0	5.7	5.0
1988	4.4	6.1	3.0	3.1	5.6	4.8
1989	4.2	5.7	2.6	3.1	5.4	4.6
1990	4.0	5.2	2.2	3.0	5.3	4.3
1995	3.4	4.5	2.0	2.5	5.1	4.0
2000 & later	[7]3.5	4.5	2.0	2.5	5.1	4.0
Alternative II-A[8]:						
1981	[6]1.9	8.8	10.3	-1.5	13.3	7.6
1982	.3	8.6	6.8	1.8	13.4	8.9
1983	5.2	6.3	6.0	.3	12.1	7.9
1984	5.0	5.6	4.6	1.0	10.8	7.1
1985	4.8	7.4	4.8	2.6	9.8	6.4
1986	4.4	7.3	4.6	2.7	8.2	5.8
1987	4.3	7.1	4.5	2.6	6.7	5.3
1988	4.1	7.1	4.3	2.8	6.4	5.2
1989	3.9	6.6	3.9	2.7	6.2	5.1
1990	3.7	6.0	3.5	2.5	6.0	5.0
1995	3.0	5.0	3.0	2.0	5.6	5.0
2000 & later	[7]3.1	5.0	3.0	2.0	5.6	5.0
Alternative II-B:						
1981	[6]1.8	8.6	10.3	-1.7	13.3	7.6
1982	-.8	6.6	6.9	-.3	13.0	9.1
1983	4.2	8.1	7.9	.2	11.4	8.5
1984	3.3	8.1	7.4	.7	9.3	8.0
1985	3.0	6.9	6.6	.3	8.0	7.7
1986	3.0	6.8	5.8	1.0	7.1	7.4
1987	3.0	6.6	5.5	1.1	6.8	7.1
1988	3.0	6.6	5.3	1.3	6.6	6.8
1989	3.0	6.4	4.9	1.5	6.5	6.4
1990	3.0	6.0	4.5	1.5	6.4	6.1
1995	2.5	5.5	4.0	1.5	6.1	5.0
2000 & later	[7]2.6	5.5	4.0	1.5	6.1	5.0
Alternative III:						
1981	[6]1.8	8.6	10.3	-1.7	13.3	7.6
1982	-1.5	6.3	7.2	-.9	13.1	9.3
1983	.6	7.3	9.6	-2.3	12.3	9.8
1984	2.5	7.8	9.6	-1.8	10.5	9.6
1985	3.8	9.2	9.2	.0	9.4	8.8
1986	2.9	9.1	8.8	.3	8.8	8.4
1987	2.7	8.7	8.4	.3	8.3	8.0
1988	2.7	8.5	8.0	.5	8.1	7.7
1989	2.7	8.3	7.6	.7	7.8	7.3
1990	2.7	8.0	7.2	.8	7.6	6.9
1995	1.8	6.2	5.2	1.0	6.7	6.0
2000 & later	[7]2.1	6.0	5.0	1.0	6.6	6.0

[1]The real GNP (Gross National Product) is the total output of goods and services expressed in constant dollars.

[2]The difference between the percentage increase in average annual wages in covered employment and the percentage increase in the average annual CPI.

[3]The average of the interest rates determined in each of the 12 months of the year for special public-debt obligations issuable to the trust funds.

[4]The ultimate rates are adjusted by age and sex based on the total labor force aged 16 and over as of July 1, 1970. Rates shown for earlier years are civilian unemployment rates for those years.

[5]Preliminary.

[6]The actual value of the 1981 increase in real GNP was 2.0 percent. This value was not available at the time the cost estimates were prepared; the cost estimates were based on the assumed increases in real GNP shown under the four alternatives.

[7]This value is for the year 2000. The annual percentage increase in real GNP is assumed to continue to change after 2000 under each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2060 are 3.4, 2.5, 2.1, and 1.0 for alternatives I, II-A, II-B, and III, respectively.

[8]The economic assumptions in alternative II-A for 1981-87 are identical to or derived from the assumptions underlying the President's 1983 Budget, with the exception of the assumed 1981 increases in the nominal wage and the real wage as well as the assumed 1982 increases in the real wage and the CPI, all of which have been adjusted to reflect actual experience available since the Budget assumptions were released.

Source: Table 10 in 1982 OASDI Trustees Report.

Table 14

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

[In percent]

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

[1] There were a number of legislative changes made to the "automatic" provisions between July 1972 and December 1973.
[2] Real wage: Defined as the increase in average nominal wages over prices.
[3] Actually, the long-range trust fund projections had a safety margin of ¾ of a percent built into the real wage differential. For trust fund projection purposes the average increase in real wages was assumed to be 1¾ percent per year (reflected by an annual increase in the CPI of 3¼ percent).

COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1977 FORECAST [1]

[In percent]

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

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

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

SOURCE: Staff Data and Materials Related to Social Security Financing, Senate Committee on Finance, September 1982

Table 15

SOCIAL SECURITY COVERAGE INFORMATION

A. Workers Covered (Estimates for 1980):

Type of Employment	Number of Persons (millions) Total[a/]	Covered[b/]	Proportion Covered
Wage and Salary	108.9	97.5	89.5%
Private Sector	88.0	84.5	96.0
Industry and Commerce	77.0	76.8	99.7
Farm	2.0	1.5	74.6
Domestic	1.9	.5	28.1
Nonprofit	6.5	5.1	78.8
Railroad	.6	.6	100.0
Public Sector	20.9	12.9	62.0
Federal	3.7	.6	15.4
State and local	15.0	10.2	68.2
Military	2.1	2.1	100.0
Self-Employment	8.6	6.5	75.5
Total, all employment	117.4	103.9	88.5

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a/ Data on total employment are based upon class of worker of longest job as reported by the individual in the Current Population Survey and total employment covers the non-nstitutionalized population age 14 and over in the 50 States and the District of Columbia as well as members of the armed forces, at home and overseas.

b/ Data on covered employment are based upon class of worker of major job as determined by the highest amount of taxable wages as reported to the Social Security Administration by employers.

SOURCE: Current Population Reports, series P-60, No. 118, series P-25, No. 902, and unpublished data for 1980 based upon March 1981 Current Population Survey; Railroad Retirement Board; Continuous Work History Sample, 1977.

Table 15

SOCIAL SECURITY COVERAGE INFORMATION

B. Information on Total Earnings in Covered Employment, Taxable Payroll and Percent Taxable of Total Earnings (Selected Years 1937-82)

Calendar Year	Earnings in Covered Employment (billions) Total	Taxable	Percent Taxable
1937	$ 32.2	$ 29.6	92.0 %
1940	35.7	33.0	92.4
1945	71.6	62.9	88.0
1950	109.8	87.5	79.7
1951 b/	148.9	120.8	81.1
1955	196.1	157.5	80.3
1959 b/	255.0	202.3	79.3
1960	265.2	207.0	78.0
1965	351.7	250.7	71.3
1966 b/	390.7	312.5	80.0
1968 b/	460.0	375.8	81.7
1970	531.6	415.6	78.2
1972 b/	617.9	484.1	78.3
1973 b/	686.7	561.8	81.8
1974 b/	746.8	636.8	85.3
1975	787.6	664.7	84.4
1976	874.7	737.7	84.3
1977	968.1	817.3	84.4
1978	1,087.9	915.8	84.2
1979 b/	1,217.4	1,070.7	88.0
1980 b/	1,321.1	1,175.3	89.0
1981 b/	1,448.0	1,300.8	89.8
1982 c/	1,535.2	1,385.3	90.2

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a/ Total earnings in covered employment represents the total earnings of persons in those employments covered by the program, where such earnings are subject to the Social Security taxes (or would be excepted for the effect of the maximum taxable earnings base).

b/ Year of an ad hoc increase in the taxable earnings base.

c/ Estimate based on Alternative II-B assumptions in 1982 OASDI Trustees Report. The percent taxable for future years should remain relatively stable as the taxable earnings base rises automatically based on increases in average wage levels.

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

Table 16

OASDI-HI TAXES PAID BY WORKERS AT FEDERAL MINIMUM, AVERAGE AND MAXIMUM WAGE LEVELS, 1937-90

Year	Federal Minimum Wage		Average Wages		Maximum Taxable Earnings Base		
	Earnings	Employee Taxes	Earnings	Employee Taxes	Earnings	Employee Taxes	Self-Employed Taxes
HISTORICAL							
1937	a/	a/	$ 1,137.96	$ 11.38	$ 3,000.00	$ 30.00	b/
1938	$ 87.00	$ .87	1,053.24	10.53	3,000.00	30.00	b/
1939	537.00	5.37	1,142.36	11.42	3,000.00	30.00	b/
1940	624.00	6.24	1,195.00	11.95	3,000.00	30.00	b/
1941	624.00	6.24	1,276.04	12.76	3,000.00	30.00	b/
1942	624.00	6.24	1,454.28	14.54	3,000.00	30.00	b/
1943	624.00	6.24	1,713.52	17.14	3,000.00	30.00	b/
1944	624.00	6.24	1,936.32	19.36	3,000.00	30.00	b/
1945	659.00	6.59	2,021.40	20.21	3,000.00	30.00	b/
1946	832.00	8.32	1,891.76	18.92	3,000.00	30.00	b/
1947	832.00	8.32	2,175.32	21.75	3,000.00	30.00	b/
1948	832.00	8.32	2,361.64	23.62	3,000.00	30.00	b/
1949	832.00	8.32	2,483.20	24.83	3,000.00	30.00	b/
1950	1,499.00	22.49	2,543.96	38.16	3,000.00	45.00	b/
1951	1,560.00	23.40	2,799.16	41.99	3,600.00	54.00	$ 81.00
1952	1,560.00	23.40	2,973.32	44.60	3,600.00	54.00	81.00
1953	1,560.00	23.40	3,139.44	47.09	3,600.00	54.00	81.00
1954	1,560.00	31.20	3,155.64	63.11	3,600.00	72.00	108.00
1955	1,560.00	31.20	3,301.44	66.03	4,200.00	84.00	126.00
1956	1,993.00	39.86	3,532.36	70.65	4,200.00	84.00	126.00
1957	2,080.00	46.80	3,641.72	81.94	4,200.00	94.50	141.75
1958	2,080.00	46.80	3,673.80	82.66	4,200.00	94.50	141.75
1959	2,080.00	52.00	3,855.80	96.39	4,800.00	120.00	180.00
1960	2,080.00	62.40	4,007.12	120.21	4,800.00	144.00	216.00
1961	2,184.00	65.52	4,086.76	122.60	4,800.00	144.00	216.00
1962	2,392.00	74.75	4,291.40	134.11	4,800.00	150.00	225.60
1963	2,461.00	89.21	4,396.64	159.38	4,800.00	174.00	259.20
1964	2,600.00	94.25	4,576.32	165.89	4,800.00	174.00	259.20
1965	2,600.00	94.25	4,658.72	168.88	4,800.00	174.00	259.20
1966	2,600.00	109.20	4,938.36	207.41	6,600.00	277.20	405.90
1967	2,886.00	126.98	5,213.44	229.39	6,600.00	290.40	422.40
1968	3,293.00	144.89	5,571.76	245.16	7,800.00	343.20	499.20
1969	3,328.00	159.74	5,893.76	282.90	7,800.00	374.40	538.20
1970	3,328.00	159.74	6,186.24	296.94	7,800.00	374.40	538.20
1971	3,328.00	173.06	6,497.08	337.85	7,800.00	405.60	585.00
1972	3,328.00	173.06	7,133.80	370.96	9,000.00	468.00	675.00
1973	3,328.00	194.69	7,580.16	443.44	10,800.00	631.80	864.00
1974	3,883.00	227.16	8,030.76	469.80	13,200.00	772.20	1,042.80
1975	4,368.00	255.53	8,630.92	504.91	14,100.00	824.85	1,113.90
1976	4,784.00	279.86	9,226.48	539.75	15,300.00	895.05	1,208.70
1977	4,784.00	279.86	9,776.44	572.10	16,500.00	965.25	1,303.50
1978	5,512.00	333.48	10,556.03	638.64	17,700.00	1,070.85	1,433.70
1979	6,032.00	369.76	11,479.46	703.69	22,900.00	1,403.77	1,854.90
1980	6,448.00	395.26	12,513.46	767.08	25,900.00	1,587.67	2,097.90
1981	6,968.00	463.37	13,594.27	904.02	29,700.00	1,975.05	2,762.10
1982	6,968.00	466.86	14,495.68	971.21	32,400.00	2,170.80	3,029.40
CUMULATIVE							
1937-82		5,210.74		10,207.35		16,936.49	22,876.50 b/
1951-82		5,110.94		9,950.78		16,501.49	22,876.50
FUTURE YEARS c/							
1983	7,530.00	504.51	15,663.97	1,049.49	35,100.00	2,351.70	3,281.85
1984	8,137.00	545.18	16,926.39	1,134.07	37,500.00	2,512.50	3,506.25
1985	8,700.00	613.35	18,099.11	1,275.99	40,500.00	2,855.25	4,009.50
1986	9,292.00	664.38	19,329.42	1,382.05	43,800.00	3,131.70	4,380.00
1987	9,907.00	708.35	20,609.56	1,473.58	46,800.00	3,346.20	4,680.00
1988	10,560.00	755.04	21,968.32	1,570.73	50,100.00	3,582.15	5,010.00
1989	11,231.00	803.02	23,363.63	1,670.50	53,400.00	3,818.10	5,340.00
1990	11,906.00	910.81	24,767.80	1,894.74	57,000.00	4,360.50	6,127.50

a/ Federal minimum wage first applicable in 1938.
b/ Self-employed first covered effective 1951.
c/ Earnings amounts after 1982 based on Alternative II-B assumptions used in 1982 OASDI Trustees Report.

Table 17A

COMPARISON OF OASDI GENERAL BENEFIT INCREASES
WITH INCREASES IN CONSUMER PRICE INDEX

Month When First Effective	(1) Percentage Benefit Increase[a]	(2) Increase in CPI from Previous Effective Date	(3) Column (1) minus Column (2)
September 1950	77%[b]	75.5%[f]	+1.5%
September 1952	15[c]	9.3	+5.7
September 1954	13[c]	0.5	+12.5
January 1959	7	7.9	-0.9
January 1965	7	7.9	-0.9
February 1968	13	9.3	+3.7
January 1970	15	10.8	+4.2
January 1971	10	5.2	+4.8
September 1972	20	5.9	+14.1
June 1974	11[d]	16.4	-5.4
June 1975	8.0[e]	9.3	-1.3
June 1976	6.4[e]	5.4	+1.0
June 1977	5.9[e]	6.9	-1.0
June 1978	6.5[e]	7.3	-0.8
June 1979	9.9[e]	11.1	-1.2
June 1980	14.3[e]	14.2	+ .1
June 1981	11.2[e]	9.5	+1.7
June 1982	7.4[e]	6.9	+0.5

a/ All benefit increases, except those for September 1950, 1952, and 1954, were uniform across-the-board percentage increases (at times, although not for 1965 and later, with somewhat larger proportionate increases in the minimum benefit).

b/ Measured from January 1940.

c/ Average increase in benefits for those then on the roll.

d/ Made in two steps, with 7% being effective for March 1974.

e/ Resulting from automatic-adjustment provisions.

f/ Increase from January 1940.

Table 17B

COMPARISON OF OASDI GENERAL BENEFIT INCREASES WITH INCREASES IN AVERAGE WAGE LEVELS

Period	(1) OASDI Benefit Increases a/	(2) Increase in Average Wages b/	(3) Column (1) Minus Column (2)
January 1940-September 1950	77%	121.8%	-44.8%
September 1950-September 1952	15	15.8	-.8
September 1952-September 1954	13	5.9	+7.1
September 1954-January 1959	7	18.4	-11.4
January 1959-January 1965	7	22.5	-15.5
January 1965-February 1968	13	17.7	-4.7
February 1968-January 1970	15	11.3	+3.7
January 1970-January 1971	10	5.0	+5.0
January 1971-September 1972	20	13.7	+6.3
September 1972-June 1974	11	10.9	+.1
June 1974-June 1975	8.0	7.4	+.6
June 1975-June 1976	6.4	6.9	-.5
June 1976-June 1977	5.9	6.0	-.1
June 1977-June 1978	6.5	7.9	-1.4
June 1978-June 1979	9.9	8.7	+1.2
June 1979-June 1980	14.3	9.0	+5.3
June 1980-June 1981	11.2	10.0	+1.2
June 1981-June 1982	7.4	6.6c/	+.8

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a/ See Table 17A.

b/ Based on wages in covered employment in first quarter of year for years up through 1977, and based on total nationwide wages (in both covered and noncovered employment) for subsequent years. (Average-wage amounts used are based on the wage-indexing series developed by the Office of the Actuary, Social Security Administration.)

c/ Based on Alternative II-B assumptions in 1982 Trustees Report.

98TH CONGRESS
1ST SESSION

S. 1

To implement the consensus recommendations of the National Commission on Social Security Reform.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. DOLE (for himself, Mr. MOYNIHAN, Mr. HEINZ, Mr. BAKER, Mr. STEVENS, Mr. LAXALT, Mr. DANFORTH, Mr. KENNEDY, Mr. BENTSEN, and Mr. MURKOWSKI) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To implement the consensus recommendations of the National Commission on Social Security Reform.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act, with the following table of contents, may be cited as the "Social Security Amendments of 1983".

TABLE OF CONTENTS

Sec. 1. Short title.

TITLE I—CHANGES IN COVERAGE

Sec. 101. Coverage of newly hired Federal employees.
Sec. 102. Coverage of employees of nonprofit organizations.
Sec. 103. Duration of agreement for coverage of State and local employees.

TITLE II—CHANGES IN BENEFITS

Sec. 201. Shift of cost-of-living adjustments to calendar year basis.
Sec. 202. Elimination of windfall benefits for persons with pensions from noncovered employment.
Sec. 203. Benefits for divorced or disabled widow or widower who remarries.
Sec. 204. Change in indexing for deferred survivor benefits.
Sec. 205. Benefits for divorced spouse regardless of whether former spouse has retired.
Sec. 206. Increase in benefit amount for disabled widows and widowers.
Sec. 207. Adjustment to cost-of-living increase when trust fund ratio falls below 20 percent.
Sec. 208. Increase in old-age insurance benefit amounts on account of delayed retirement.

TITLE III—REVENUE PROVISIONS

Sec. 301. Amendment of 1954 Code.
Sec. 302. Taxation of 50 percent of social security benefits of higher income persons.
Sec. 303. Acceleration of increase in FICA taxes; 1984 employee FICA tax credit.
Sec. 304. Self-employment taxes.
Sec. 305. Coverage of payments under salary reduction plans.

TITLE IV—MISCELLANEOUS FINANCING PROVISIONS

Sec. 401. Allocation to Disability Insurance Trust Fund.
Sec. 402. Interfund borrowing extension.
Sec. 403. Crediting amounts of unnegotiated checks to trust funds.
Sec. 404. Transfer to trust funds for costs of benefits attributable to military service before 1957.
Sec. 405. Payment to trust funds of amounts equivalent to taxes on service in the uniformed services performed after 1956.
Sec. 406. Trust fund investment procedure.
Sec. 407. Addition of public members to trust fund board of trustees.

1 # TITLE I—CHANGES IN COVERAGE

2 **COVERAGE OF NEWLY HIRED FEDERAL EMPLOYEES**

3 SEC. 101. (a)(1) Section 210(a) of the Social Security
4 Act is amended by striking out paragraphs (5) and (6) and
5 inserting in lieu thereof the following:

6 "(5) Service performed in the employ of the
7 United States or any instrumentality of the United
8 States, if such service—

1 "(A) would not be included in the term 'em-
2 ployment' for purposes of this subsection by
3 reason of the provisions of paragraph (5) or (6) of
4 this subsection as in effect on January 1, 1983,
5 "(B) is performed by an individual who has
6 been continuously in the employ of the United
7 States or an instrumentality thereof since Decem-
8 ber 31, 1983; and
9 "(C) is not service performed as the Presi-
10 dent or Vice-President of the United States or as
11 a Member, Delegate, or Resident Commissioner of
12 or to the Congress;
13 "(6) Service performed in the employ of the
14 United States or any instrumentality of the United
15 States if such service is performed—
16 "(A) in a penal institution of the United
17 States by an inmate thereof;
18 "(B) by any individual as an employee in-
19 cluded under section 5351(2) of title 5, United
20 States Code (relating to certain interns, student
21 nurses, and other student employees of hospitals
22 of the Federal Government), other than as a
23 medical or dental intern or a medical or dental
24 resident in training; or

1 "(C) by any individual as an employee serv-
2 ing on a temporary basis in case of fire, storm,
3 earthquake, flood, or other similar emergency;".
4 (2) Section 210(p) of such Act is amended by striking
5 out "provisions of—" and all that follows and inserting in
6 lieu thereof "provisions of subsection (a)(5).".
7 (b)(1) Section 3121(b) of the Internal Revenue Code of
8 1954 is amended by striking out paragraphs (5) and (6) and
9 inserting in lieu thereof the following:
10 "(5) service performed in the employ of the
11 United States or any instrumentality of the United
12 States, if such service—
13 "(A) would not be included in the term 'em-
14 ployment' for purposes of this subsection by
15 reason of the provisions of paragraph (5) or (6) of
16 this subsection as in effect on January 1, 1983,
17 and
18 "(B) is performed by an individual who has
19 been continuously in the employ of the United
20 States or an instrumentality thereof since Decem-
21 ber 31, 1983; and
22 "(C) is not service performed as the Presi-
23 dent or Vice-President of the United States or as
24 a Member, Delegate, or Resident Commissioner of
25 or to the Congress;

1 "(6) service performed in the employ of the
2 United States or any instrumentality of the United
3 States if such service is performed—
4 "(A) in a penal institution of the United
5 States by an inmate thereof;
6 "(B) by any individual as an employee in-
7 cluded under section 5351(2) of title 5, United
8 States Code (relating to certain interns, student
9 nurses, and other student employees of hospitals
10 of the Federal Government), other than as a
11 medical or dental intern or a medical or dental
12 resident in training; or
13 "(C) by any individual as an employee serv-
14 ing on a temporary basis in case of fire, storm,
15 earthquake, flood, or other similar emergency;".
16 (2) Section 3121(u)(1) of such Code is amended to read
17 as follows:
18 "(1) IN GENERAL.—For purposes of the taxes im-
19 posed by sections 3101(b) and 3111(b), subsection (b)
20 shall be applied without regard to paragraph (5) there-
21 of.".
22 (c) The amendments made by this section shall be effec-
23 tive with respect to remuneration paid after December 31,
24 1983.

1 COVERAGE OF EMPLOYEES OF NONPROFIT
2 ORGANIZATIONS

3 SEC. 102. (a) Section 210(a)(8) of the Social Security
4 Act is amended by striking out subparagraph (B) thereof and
5 by striking out "(A)" after "(8)".

6 (b)(1) Section 3121(b)(8) of the Internal Revenue Code
7 of 1954 is amended by striking out subparagraph (B) thereof
8 and by striking out "(A)" after "(8)".

9 (2) Subsection (k) of section 3121 of such Code is re-
10 pealed.

11 (c) The amendments made by this section shall be effec-
12 tive with respect to remuneration paid after December 31,
13 1983.

14 (d) Notwithstanding any provision of section 3121(k) of
15 the Internal Revenue Code of 1954 (or any other provision of
16 law) the period for which a certificate is in effect under such
17 section may not be terminated on or after the date of the
18 enactment of this Act.

19 DURATION OF AGREEMENT FOR COVERAGE OF STATE AND
20 LOCAL EMPLOYEES

21 SEC. 103. (a) Subsection (g) of section 218 of the Social
22 Security Act is amended to read as follows:

23 "Duration of Agreement

24 "(g) No agreement under this section may be terminat-
25 ed, in its entirety or with respect to any coverage group, on

1 or after the date of the enactment of the Social Security
2 Amendments of 1983.".

3 (b) The amendment made by subsection (a) shall apply
4 to any agreement in effect under section 218 of the Social
5 Security Act on the date of the enactment of this Act, with-
6 out regard to whether a notice of termination was in effect on
7 such date.

8 TITLE II—CHANGES IN BENEFITS

9 SHIFT OF COST-OF-LIVING ADJUSTMENTS TO CALENDAR 10 YEAR BASIS

11 SEC. 201. (a)(1) Section 215(i)(2)(A)(ii) of the Social Se-
12 curity Act is amended by striking out "June" and inserting
13 in lieu thereof "December".

14 (2) Section 215(i)(2)(A)(iii) of such Act is amended by
15 striking out "May" and inserting in lieu thereof "November".

16 (3) Section 215(i)(2)(B) of such Act is amended by strik-
17 ing out "May" each place it appears and inserting in lieu
18 thereof in each instance "November".

19 (4) Section 203(f)(8)(A) of such Act is amended by strik-
20 ing out "June" and inserting in lieu thereof "December".

21 (5) Section 230(a) of such Act is amended by striking
22 out "June" and inserting in lieu thereof "December".

23 (6) Section 215(i)(2) of such Act as in effect in Decem-
24 ber 1978, and as applied in certain cases under the provisions
25 of such Act as in effect after December 1978, is amended by

1 striking out "June" in subparagraph (A)(ii) and inserting in
2 lieu thereof "December", and by striking out "May" each
3 place it appears in subparagraph (B) and inserting in lieu
4 thereof in each instance "November".

5 (7) Section 202(m) of such Act (as it applies in certain
6 cases by reason of section 2 of Public Law 97–123) is
7 amended by striking out "May" and inserting in lieu thereof
8 "November".

9 (8) The amendments made by this subsection shall apply
10 with respect to cost-of-living increases determined under sec-
11 tion 215(i) of the Social Security Act for years after 1982.

12 (b)(1) Section 215(i)(1)(A) of the Social Security Act is
13 amended by striking out "March 31" and inserting in lieu
14 thereof "September 30", and by striking out "1974" and
15 inserting in lieu thereof "1982".

16 (2) Section 215(i)(1)(A) of such Act as in effect in De-
17 cember 1978, and as applied in certain cases under the provi-
18 sions of such Act as in effect after December 1978, is amend-
19 ed by striking out "March 31" and inserting in lieu thereof
20 "September 30".

21 (3) The amendments made by this subsection shall apply
22 with respect to cost-of-living increases determined under sec-
23 tion 215(i) of the Social Security Act for years after 1983.

24 (c) Section 215(i)(4) of such Act is amended by inserting
25 ", and as amended by section 201 (a)(6) and (b)(2) of the

1 Social Security Amendments of 1983," after "as in effect in
2 December 1978".

3 (d)(1) Section 1612(b)(2) of such Act is amended by
4 redesignating subparagraphs (A) and (B) as subparagraphs
5 (B) and (C) and inserting before subparagraph (B) the follow-
6 ing new subparagraph:

7 "(A) the first $600 per year (or proportionately
8 smaller amounts for shorter periods) of benefits re-
9 ceived under title II of this Act;".

10 (2) Section 1612(b)(2)(B) of such Act (as redesignated
11 by paragraph (1)) is amended by inserting before the semi-
12 colon at the end thereof the following: ", reduced (but not
13 below zero) by any amount excluded under subparagraph
14 (A)".

15 (3) The amendments made by this subsection shall be
16 effective with respect to benefits payable under title XVI of
17 the Social Security Act for months after June 1983.

18 ELIMINATION OF WINDFALL BENEFITS FOR INDIVIDUALS
19 RECEIVING PENSIONS FROM NONCOVERED EMPLOYMENT

20 SEC. 202. (a) Section 215(a) of the Social Security Act
21 is amended by adding at the end thereof the following new
22 paragraph:

23 "(7)(A) In the case of an individual whose primary in-
24 surance amount would be computed under paragraph (1) of
25 this subsection, and who becomes entitled after 1983 to a

1 monthly periodic payment (or a payment determined under
2 subparagraph (D)) based (in whole or in part) upon his earn-
3 ings for service which did not constitute 'employment' as de-
4 fined in section 210 for purposes of this title (hereafter in this
5 paragraph and in subsection (d)(5) referred to as 'noncovered
6 service'), the primary insurance amount of that individual
7 during his entitlement to old-age or disability insurance bene-
8 fits shall be computed or recomputed under subparagraph (B)
9 with respect to the initial month in which the individual be-
10 comes eligible for such benefits, and shall be periodically re-
11 computed thereafter at such times as the Secretary deter-
12 mines there has been a significant change in the amount of
13 such periodic payment.

14 "(B) If paragraph (1) of this subsection would apply to
15 that individual (except for subparagraph (A) of this para-
16 graph), there shall first be computed an amount equal to the
17 individual's primary insurance amount under this subsection
18 (other than this paragraph), except that for purposes of such
19 computation the percentage of the individual's average in-
20 dexed monthly earnings established by subparagraph (A)(i) of
21 paragraph (1) shall be 32 percent. There shall then be com-
22 puted (without regard to this paragraph) a second amount,
23 which shall be equal to the individual's primary insurance
24 amount under this subsection (other than this paragraph),
25 except that such second amount shall be reduced by an

1 amount equal to one-half of the portion of the monthly peri-
2 odic payment attributable to non-covered service to which
3 the individual is entitled (or deemed to be entitled) for the
4 month for which such old-age or disability insurance benefits
5 are payable. The individual's primary insurance amount shall
6 be the larger of the two amounts computed under this sub-
7 paragraph (before the application of subsection (i)) and shall
8 be deemed to be computed under paragraph (1) of this sub-
9 section for the purpose of applying other provisions of this
10 title.

11 "(C) No primary insurance amount may be reduced by
12 reason of this paragraph below the amount of the primary
13 insurance amount as determined under paragraph (1)(C)(i).

14 "(D)(i) Any periodic payment that otherwise meets the
15 requirements of subparagraph (A), but which is paid on other
16 than a monthly basis, shall be allocated on a basis equivalent
17 to a monthly payment (as determined by the Secretary), and
18 such equivalent monthly payment shall constitute a monthly
19 periodic payment for purposes of this paragraph.

20 "(ii) In the case of an individual who has elected to
21 receive a periodic payment that has been reduced so as to
22 provide a survivors benefit to any other individual, the pay-
23 ment is deemed to be increased (for the purpose of any com-
24 putation under this paragraph) by such reduction.

1 "(iii) If an individual to whom subparagraph (A) applies
2 is eligible for a periodic payment beginning with a month that
3 is subsequent to the month in which he becomes eligible for
4 old-age or disability insurance benefits, the amount of that
5 payment for purposes of subparagraph (B) shall be deemed to
6 be the amount to which he is, or is deemed, to become enti-
7 tled (subject to clauses (i), (ii), and (iv) of this subparagraph)
8 in such subsequent month.

9 "(iv) For purposes of this subparagraph, the term 'peri-
10 odic payment' includes a payment payable in a lump sum if it
11 is a commutation of, or a substitute for, periodic payments.".

12 (b) Section 215(d) of such Act is amended by adding at
13 the end thereof the following new paragraph:

14 "(5) In the case of an individual whose primary insur-
15 ance amount is not computed under paragraph (1) of subsec-
16 tion (a) by reason of paragraph (4)(B)(ii) of that subsection,
17 and who becomes entitled after 1983 to a monthly periodic
18 payment (or a payment determined under subsection
19 (a)(7)(D)) based (in whole or in part) upon his earnings in
20 noncovered service, his primary insurance amount for pur-
21 poses of his entitlement to old-age or disability insurance
22 benefits shall be the primary insurance amount computed or
23 recomputed under this subsection (without regard to this
24 paragraph and before the application of subsection (i)) re-
25 duced by an amount equal to the smaller of—

1 "(i) one-half of the primary insurance amount
2 (computed without regard to this paragraph and before
3 the application of subsection (i)), or
4 "(ii) one-half of the portion of the monthly period-
5 ic payment (or payment determined under subsection
6 (a)(7)(D)) attributable to noncovered service to which
7 that individual is entitled (or deemed to be entitled) for
8 the initial month of his eligibility for old-age or disabil-
9 ity insurance benefits.
10 The amount of such periodic payment for purposes of clause
11 (ii) shall be periodically recomputed at such times as the Sec-
12 retary determines there has been a significant change in the
13 amount of such periodic payment.
14 "(C) No primary insurance amount may be reduced by
15 reason of this paragraph below the amount of the primary
16 insurance amount as determined under subsection
17 (a)(1)(C)(i).".
18 (c) Section 215(f) of such Act is amended by adding at
19 the end the following new paragraph:
20 "(9)(A) In the case of an individual who becomes enti-
21 tled to a periodic payment determined under subsection
22 (a)(7)(A) or (a)(7)(D) in a month subsequent to the first
23 month in which he becomes entitled to an old-age or disabil-
24 ity insurance benefit, and whose primary insurance amount
25 has been computed without regard to either such subsection

1 or subsection (d)(5), such individual's primary insurance
2 amount shall be recomputed, in accordance with either such
3 subsection or subsection (d)(5), as may be applicable, effective
4 with the first month of his concurrent entitlement to either
5 such benefit and such periodic payment.

6 "(B) If an individual's primary insurance amount has
7 been computed under subsection (a)(7) or (d)(5), and it be-
8 comes necessary to recompute that primary insurance
9 amount under this subsection—

10 "(i) so as to increase the monthly benefit amount
11 payable with respect to such primary insurance amount
12 (other than in the case of the individual's death), such
13 increase shall be determined as though such primary
14 insurance amount had initially been computed without
15 regard to subsection (a)(7) or (d)(5), or

16 "(ii) by reason of the individual's death, such pri-
17 mary insurance amount shall be recomputed without
18 regard to (and as though it had never been computed
19 with regard to) subsection (a)(7) or (d)(5).

20 "(C) In the case of any individual whose primary insur-
21 ance amount is subject to the requirements of subsection
22 (a)(7) or (d)(5), the amount of such primary insurance amount
23 shall be recomputed as may be required under such subsec-
24 tions by reason of a significant change in the amount of the
25 relevant periodic payment.".

1 (d) Sections 202(e)(2)(B)(i) and 202(f)(3)(B)(i) of such
2 Act are each amended by striking out "section 215(f)(5) or
3 (6)" and inserting in lieu thereof "section 215(f)(5), 215(f)(6),
4 or 215(f)(9)(B)".

5 BENEFITS FOR SURVIVING DIVORCED SPOUSES AND
6 DISABLED WIDOWS AND WIDOWERS WHO REMARRY

7 SEC. 203. (a)(1) Section 202(e)(3) of the Social Security
8 Act is repealed.

9 (2) Section 202(e)(4) of such Act is amended to read as
10 follows:

11 "(4) For purposes of paragraph (1), if—

12 "(A) a widow or a surviving divorced wife marries
13 after attaining age 60, or

14 "(B) a disabled widow or disabled surviving di-
15 vorced wife described in paragraph (1)(B)(ii) marries
16 after attaining age 50,

17 such marriage shall be deemed not to have occurred.".

18 (b)(1) Section 202(f)(4) of such Act is repealed.

19 (2) Section 202(f)(5) of such Act is amended to read as
20 follows:

21 "(5) For purposes of paragraph (1), if—

22 "(A) a widower marries after attaining age 60, or

23 "(B) a disabled widower described in paragraph
24 (1)(B)(ii) marries after attaining age 50,

25 such marriage shall be deemed not to have occurred.".

1 (c)(1) The amendments made by subsection (a) shall be
2 effective with respect to monthly benefits payable under title
3 II of the Social Security Act for months after December
4 1983.

5 (2) In the case of an individual who was not entitled to a
6 monthly benefit under title II of such Act for December
7 1983, no benefit shall be paid under such title by reason of
8 such amendments unless proper application for such benefit is
9 made.

10 DETERMINATION OF PRIMARY INSURANCE AMOUNT FOR
11 DEFERRED SURVIVOR BENEFITS

12 SEC. 204. (a) Section 215(a) of the Social Security Act
13 is amended by adding at the end thereof the following new
14 paragraph:

15 "(8)(A) If a person is entitled to benefits under subsec-
16 tion (e) or (f) of section 202 on the basis of the wages and
17 self-employment income of a deceased individual whose pri-
18 mary insurance amount would otherwise be determined under
19 paragraph (1), the primary insurance amount of such de-
20 ceased individual shall be determined, for purposes of deter-
21 mining the amount of the benefit under such subsection, as if
22 such deceased individual died in the year in which the person
23 entitled to benefits under such subsection first became eligible
24 for such benefits or, if earlier, the year in which such de-
25 ceased individual would have attained age 60 if he had not

1 died (except that the actual year of death of such deceased
2 individual shall be used for purposes of section
3 215(b)(2)(B)(ii)(II)).
4 "(B) Notwithstanding subparagraph (A), if a person—
5 "(i) is entitled to benefits under subsection (e) or
6 (f) of section 202 on the basis of the wages and self-
7 employment income of a deceased individual, and
8 "(ii) was entitled to benefits under this title on the
9 basis of the wages and self-employment income of such
10 deceased individual in the month before the month in
11 which such person became eligible for the benefits de-
12 scribed in clause (i),
13 the primary insurance amount of such deceased individual
14 shall be the primary insurance amount determined under the
15 rules which would apply (but for subparagraph (A)) or the
16 primary insurance amount determined under subparagraph
17 (A), whichever is larger.
18 "(C) For purposes of determining the maximum family
19 benefit amount with respect to a deceased individual for
20 whom a primary insurance amount is determined under this
21 paragraph, the primary insurance amount of such deceased
22 individual shall be the primary insurance amount determined
23 under the rules which would apply (but for this paragraph) or
24 the primary insurance amount determined under this para-
25 graph, whichever is larger.".

1 (b) The amendments made by subsection (a) shall apply
2 to the benefits of individuals who become eligible for benefits
3 under section 202 (e) and (f) of the Social Security Act after
4 December 1983.

5 BENEFITS FOR DIVORCED SPOUSE REGARDLESS OF
6 WHETHER FORMER SPOUSE HAS RETIRED

7 SEC. 205. (a) Section 202(b) of the Social Security Act
8 is amended by adding at the end thereof the following new
9 paragraph:

10 "(5) For purposes of determining the entitlement of a
11 divorced wife to a benefit under this subsection and the
12 amount of such benefit, in the case of a wife who has been
13 divorced from her former husband for a period of not less
14 than 24 months—

15 "(A) such former husband shall be deemed to be
16 entitled to an old-age insurance benefit if he would be
17 entitled to such a benefit if he applied therefor; and

18 "(B) the amount of such benefit for such divorced
19 wife shall be determined without regard to reductions
20 which are or would be made under section 203 on ac-
21 count of work performed by such former husband.".

22 (b)(1) The amendment made by subsection (a) shall be
23 effective with respect to monthly benefits payable under title
24 II of the Social Security Act for months after December
25 1983.

1 (2) In the case of an individual who was not entitled to a
2 monthly benefit under title II of such Act for December
3 1983, no benefit shall be paid under such title by reason of
4 such amendment unless proper application for such benefit is
5 made.

6 INCREASE IN BENEFIT AMOUNT FOR DISABLED WIDOWS
7 AND WIDOWERS

8 SEC. 206. (a)(1) Section 202(q)(1) of the Social Security
9 Act is amended by striking out the semicolon at the end of
10 subparagraph (B)(ii) and all that follows and inserting in lieu
11 thereof a period.

12 (2) Section 202(q)(6) of such Act is amended to read as
13 follows:

14 "(6) For purposes of this subsection, the 'reduction
15 period' for an old-age, wife's, husband's, widow's, or widow-
16 er's insurance benefit is the period beginning—

17 "(A) in the case of an old-age or husband's insur-
18 ance benefit, with the first day of the first month for
19 which such individual is entitled to such benefit,

20 "(B) in the case of a wife's insurance benefit, with
21 the first day of the first month for which a certificate
22 described in paragraph (5)(A)(i) is effective, or

23 "(C) in the case of a widow's or widower's insur-
24 ance benefit, with the first day of the first month for
25 which such individual is entitled to such benefit or the

1 first day of the month in which such individual attains
2 age 60, whichever is later,
3 and ending with the last day of the month before the month
4 in which such individual attains retirement age.".
5 (3) Section 202(q)(7) of such Act is amended by striking
6 out the matter preceding subparagraph (A) and inserting in
7 lieu thereof the following:
8 "(7) For purposes of this subsection, the 'adjusted re-
9 duction period' for an old-age, wife's, husband's, widow's, or
10 widower's insurance benefit is the reduction period prescribed
11 in paragraph (6) for such benefit, excluding—".
12 (4) Paragraphs (1)(B)(i), (3)(E)(ii), and (3)(F)(ii) of sec-
13 tion 202(q) of such Act are each amended by striking out
14 "(6)(A)" and inserting in lieu thereof in each instance "(6)".
15 (5) Section 202(q)(3)(G) of such Act is amended by
16 striking out "paragraph (6)(A) (or, if such paragraph does not
17 apply, the period specified in paragraph (6)(B))" and inserting
18 in lieu thereof "paragraph (6)".
19 (6) Section 202(q)(10) of such Act is amended—
20 (A) by striking out "or an additional adjusted re-
21 duction period";
22 (B) in subparagraphs (B)(i), (C)(i), and (C)(ii), by
23 striking out ", plus the number of months in the ad-
24 justed additional reduction period multiplied by 43/240
25 of 1 percent"; and

1 (C) in subparagraph (B)(ii), by striking out ", plus
2 the number of months in the additional reduction
3 period multiplied by 43/240 of 1 percent".
4 (b)(1) The amendments made by this section shall be
5 effective with respect to monthly benefits under title II of the
6 Social Security Act for months after December 1983.
7 (2) In the case of an individual who was not entitled to a
8 monthly benefit under title II of such Act for December
9 1983, no benefit shall be paid under such title by reason of
10 such amendments unless proper application for such benefit is
11 made.

12 ADJUSTMENT TO COST-OF-LIVING INCREASE WHEN TRUST
13 FUND RATIO FALLS BELOW 20 PERCENT

14 SEC. 207. (a) Section 215(i)(2)(A)(ii) of the Social Secu-
15 rity Act is amended, in the matter following clause (III), by
16 striking out "The increase shall be derived" and inserting in
17 lieu thereof "Except as otherwise provided in paragraph (5),
18 the increase shall be derived".
19 (b) Section 215(i) of such Act is amended by adding at the
20 end thereof the following new paragraph:
21 "(5)(A) The amount of the increase under paragraph (2)
22 to become effective for monthly benefits payable for Decem-
23 ber 1988 or any December thereafter shall, if the Secretary
24 makes a finding under this paragraph that the combined trust
25 funds ratio (as defined in subparagraph (D)) as of the start of

1 business on January 1 of the calendar year in which such
2 December falls is less than 20 percent, be determined under
3 paragraph (2) by substituting—
4 "(i) the percentage (rounded to the nearest one-
5 tenth of 1 percent) by which the average of the total
6 wages for the preceding calendar year (as determined
7 for purposes of subsection (b)(3)(A)(ii)) exceeds such
8 average for the second preceding calendar year (and if
9 no increase in such wages took place, the percentage
10 shall be deemed to be zero), for
11 "(ii) the percentage otherwise applicable under
12 paragraph (2),
13 but only if the percentage determined under clause (i) is less
14 than the percentage determined under clause (ii).
15 "(B) In any case in which a cost-of-living adjustment
16 would not be made under this subsection on account of the
17 relevant increase in the Consumer Price Index being less
18 than 3 percent, no such cost-of-living increase shall be made
19 by reason of this paragraph. For purposes of any subsequent
20 determination of a cost-of-living increase based upon a period
21 of more than 12 months, the percentage of the cost-of-living
22 increase (if any) to be applied under paragraph (2) shall be
23 the sum of the percentage increases for each relevant 12-
24 month period in such longer period which would have been
25 effective under this subsection (including this paragraph) but

1 for the provision of paragraph (1) which limits such increases
2 only to cases in which the relevant increase in the Consumer
3 Price Index is equal to or greater than 3 percent.

4 "(C) The Secretary shall make the finding with respect
5 to the combined trust funds ratio (as of the start of business
6 on January 1 of each calendar year) on October 1 of each
7 calendar year, based upon the most recent data available as
8 of that time.

9 "(D) For purposes of this paragraph, the term 'com-
10 bined trust funds ratio' means the ratio of—

11 "(i) the combined balance in the Federal Old-Age
12 and Survivors Insurance Trust Fund and the Federal
13 Disability Insurance Trust Fund, reduced by the
14 amount of any outstanding loan (including interest
15 thereon) from the Federal Hospital Insurance Trust
16 Fund, as of the start of business on January 1 of any
17 calendar year, to

18 "(ii) the amount estimated by the Secretary to be
19 the total amount to be paid from the Federal Old-Age
20 and Survivors Insurance Trust Fund and the Federal
21 Disability Insurance Trust Fund during such calendar
22 year for all purposes authorized by section 201, but ex-
23 cluding any transfer payments between such trust
24 funds and reducing the amount of any transfer to the
25 Railroad Retirement Account by the amount of any

1 transfers into either such trust fund from the Railroad
2 Retirement Account.
3 "(E) If any increase under paragraph (2) has been deter-
4 mined on the basis of the substitute formula in subparagraph
5 (A)(i) of this paragraph, and, for any succeeding calendar
6 year, the Secretary determines that the combined trust funds
7 ratio is greater than 32 percent, the Secretary shall pay addi-
8 tional benefits with respect to the 12-month period beginning
9 with the following December in amounts not to exceed—
10 "(i) in the aggregate, a total amount which, ac-
11 cording to actuarial estimate, equals the amount by
12 which the balance in such trust funds on the date of
13 such determination exceeds the amount necessary to
14 effect a combined trust funds ratio of 32 percent for
15 the following year; and
16 "(ii) with respect to any individual, for benefits for
17 each month in such 12-month period, an amount equal
18 to one-twelfth of the total amount by which all benefits
19 paid to him during all previous years were less than
20 the amounts which would have been paid to him but
21 for the provisions of this paragraph.
22 Such additional benefits shall be paid as a percentage in-
23 crease in the monthly benefits otherwise payable for months
24 during such 12-month period. If there are not sufficient funds
25 available to pay additional benefits in the full amount to all

1 individuals (taking into account the limitation in clause (i)),
2 amounts paid under this subparagraph shall be paid on a pro
3 rata basis to all individuals who are entitled to any such
4 amount and are entitled to a benefit under this title for the
5 months in which such additional amounts are being paid.

6 "(F) In any case in which additional payments are made
7 by reason of the provisions of subparagraph (E), for purposes
8 of determining benefit amounts for months after the 12-
9 month period for which such additional benefits were made,
10 the percentage increase under this subsection applicable to
11 benefits payable for such 12-month period shall be deemed to
12 be the actual percentage achieved by reason of such addition-
13 al payments (as measured with respect to payments which
14 are not subject to reduction under any other provision of this
15 Act).".

16 (c) Only with respect to the determination made for Jan-
17 uary 1, 1988, the combined trust fund ratio for such year (for
18 purposes of determining the increase under section 215(i) of
19 the Social Security Act for benefits payable for December of
20 such year) shall be determined by using the actuarial estimate
21 of the Secretary of Health and Human services of the ratio
22 of—

23 (1) the combined balance which will be available
24 in the Federal Old-Age and Survivors Insurance Trust
25 Fund and the Federal Disability Insurance Trust Fund,

1 reduced by the amount of any outstanding loan (includ-
2 ing interest thereon) from the Federal Hospital Insur-
3 ance Trust Fund, at the close of business on December
4 31 of such calendar year, to

5 (2) the amount estimated by the Secretary to be
6 the total amount to be paid from the Federal Old-Age
7 and Survivors Insurance Trust Fund and the Federal
8 Disability Insurance Trust Fund for calendar year
9 1988 for all purposes authorized by section 201 of such
10 Act, but excluding any transfer payments between such
11 trust funds, and reducing the amount of any transfer to
12 the Railroad Retirement Account by the amount of any
13 transfers into either such trust fund from the Railroad
14 Retirement Account.

15 (d) Section 1617(a)(2) of the Social Security Act is
16 amended by inserting ", or, if greater, the percentage by
17 which benefit amounts under title II would be increased for
18 such month but for the provisions of section 215(i)(5)," after
19 "are increased for such month".

20 INCREASE IN OLD-AGE INSURANCE BENEFIT AMOUNTS ON
21 ACCOUNT OF DELAYED RETIREMENT

22 SEC. 208. (a) Section 202(w)(1)(A) of the Social Secu-
23 rity Act is amended to read as follows:

24 "(A) the applicable percentage (as determined
25 under paragraph (6)) of such amount, multiplied by".

1 (b) Section 202(w) of such Act is amended by adding at
2 the end thereof the following new paragraph:
3 "(6) For purposes of paragraph (1)(A), the applicable
4 percentage is—
5 "(A) 1/12 of 1 percent in the case of an individual
6 who first becomes eligible for an old-age insurance
7 benefit before 1979; and
8 "(B) in the case of all other individuals—
9 "(i) 1/4 of 1 percent for increment months
10 earned prior to 1990,
11 "(ii) with respect to increment months
12 earned after 1989, a percentage equal to the per-
13 centage in effect under this subparagraph for
14 months in the preceding calendar year (as in-
15 creased pursuant to this clause), plus 1/48 of 1
16 percent, and
17 "(iii) 2/3 of 1 percent for increment months
18 earned after 2008.".
19 (c)(1) Paragraphs (2) (A) and (3) of section 202(w) of
20 such Act are each amended by striking out "age 72" and
21 inserting in lieu thereof "age 70".
22 (2) The amendments made by paragraph (1) shall apply
23 with respect to increment months in calendar years after
24 1983.

1 TITLE III—REVENUE PROVISIONS

2 **SEC. 301. AMENDMENT OF 1954 CODE.**

3 Except as otherwise expressly provided, whenever in
4 this title an amendment or repeal is expressed in terms of an
5 amendment to, or repeal of, a section or other provision, the
6 reference shall be considered to be made to a section or other
7 provision of the Internal Revenue Code of 1954.

8 **SEC. 302. TAXATION OF 50 PERCENT OF SOCIAL SECURITY**
9 **BENEFITS OF HIGHER INCOME PERSONS.**

10 (a) GENERAL RULE.—Part II of subchapter B of chap-
11 ter 1 (relating to amounts specifically included in gross
12 income) is amended by redesignating section 86 as section 87
13 and by inserting after section 85 the following new section:
14 "SEC. 86. SOCIAL SECURITY BENEFITS.

15 "(a) IN GENERAL.—If the adjusted gross income (deter-
16 mined without regard to this section, section 105(d), or sec-
17 tion 221) of the taxpayer for the taxable year exceeds the
18 base amount, there shall be included in the gross income of
19 the taxpayer for the taxable year an amount equal to one-half
20 of the social security benefits paid to the taxpayer during the
21 taxable year.

22 "(b) BASE AMOUNT.—For purposes of this section, the
23 term 'base amount' means—

24 "(1) except as provided in paragraphs (2) and (3),
25 $20,000,

1 "(2) $25,000, in the case of a joint return, and
2 "(3) zero, in the case of a taxpayer who—
3 "(A) is married at the close of the taxable
4 year (within the meaning of section 143) but does
5 not file a joint return for such year, and
6 "(B) does not live apart from his spouse at
7 all times during the taxable year.
8 "(d) SOCIAL SECURITY BENEFIT.—For purposes of
9 this section, the term 'social security benefit' means any
10 amount paid to the taxpayer by reason of entitlement to a
11 monthly benefit under title II of the Social Security Act.".
12 (b) INFORMATION REPORTING.—Subchapter B of part
13 III of subchapter A of chapter 61 (relating to information
14 concerning transactions with other persons) is amended by
15 adding at the end thereof the following new section:
16 "SEC. 6050F. RETURNS RELATING TO SOCIAL SECURITY
17 BENEFITS.
18 "(a) REQUIREMENT OF REPORTING.—The Secretary of
19 Health and Human Services shall make a return, according
20 to the forms and regulations prescribed by the Secretary, set-
21 ting forth—
22 "(1) the aggregate amount of social security bene-
23 fits (within the meaning of section 86(d)) paid to any
24 individual during any calendar year, and

1 "(2) the name and address of the individual to
2 whom paid.
3 "(b) STATEMENTS TO BE FURNISHED TO INDIVID-
4 UALS WITH RESPECT TO WHOM INFORMATION IS FUR-
5 NISHED.—Every person making a return under subsection
6 (a) shall furnish to each individual whose name is set forth in
7 such return a written statement showing—
8 "(1) the name and address of the person making
9 such return, and
10 "(2) the aggregate amount of payments to the in-
11 dividual as shown on such return.
12 The written statement required under the preceding sentence
13 shall be furnished to the individual on or before January 31
14 of the year following the calendar year for which the return
15 under subsection (a) was made.".
16 (c) APPROPRIATIONS AND TRANSFERS TO TRUST
17 FUNDS.—Section 201 of the Social Security Act is amended
18 by adding at the end thereof the following new subsection:
19 "(m)(1) There are appropriated, out of any moneys in
20 the Treasury not otherwise appropriated, for each fiscal
21 year—
22 "(A) to the Federal Old-Age and Survivors Insur-
23 ance Trust Fund an amount which bears the same
24 ratio to the increase in tax liability under chapter 1 of
25 the Internal Revenue Code of 1954 which is attributa-

1 ble to section 86 of such Code and properly allocable
2 to such fiscal year as—
3 "(i) the amount which is appropriated to
4 such trust fund under subsection (a) for such fiscal
5 year, bears to
6 "(ii) the aggregate amounts appropriated
7 under subsections (a) and (b) for such fiscal year,
8 and
9 "(B) to the Federal Disability Insurance Trust
10 Fund an amount equal to the portion of the increase in
11 tax described in subparagraph (A) which is not appro-
12 priated under subparagraph (A).
13 "(2)(A) The Secretary of the Treasury shall estimate for
14 fiscal year 1984 (and each year thereafter) the amount appro-
15 priated under paragraph (1).
16 "(B) On the basis of the estimate under subparagraph
17 (A), the Secretary of the Treasury shall not less than quarter-
18 ly make transfers to the appropriate trust funds.
19 "(3)(A) The Secretary of the Treasury shall make
20 proper adjustments in the amounts subsequently transferred
21 under paragraph (2) to the extent prior estimates differed
22 from the amounts required to be appropriated.
23 "(B) For purposes of this subsection, the final determi-
24 nation of the amount required to be transferred under this

1 subsection for any fiscal year shall be based on the final sta-
2 tistics of income which are—
3 "(i) published under section 6108(a) of the Inter-
4 nal Revenue Code of 1954, and
5 "(ii) properly allocable to such fiscal year.".
6 (d) EFFECTIVE DATE.—The amendments made by this
7 section shall apply to benefits received after December 31,
8 1983, and attributable to periods after such date.

9 **SEC. 303. ACCELERATION OF INCREASE IN FICA TAXES; 1984**
10 **EMPLOYEE FICA TAX CREDIT.**

11 (a) ACCELERATION OF INCREASE IN FICA TAXES.—
12 (1) TAX ON EMPLOYEES.—Subsection (a) of sec-
13 tion 3101 (relating to rate of tax on employees for old-
14 age, survivors, and disability insurance) is amended by
15 striking out paragraphs (5), (6), and (7) and inserting in
16 lieu thereof the following:
17 "(5) with respect to wages received during the
18 calendar years 1982 and 1983, the rate shall be 5.40
19 percent;
20 "(6) with respect to wages received during the
21 calendar years 1984 through 1987, the rate shall be
22 5.70 percent;
23 "(7) with respect to wages received during the
24 calendar years 1988 and 1989, the rate shall be 6.06
25 percent; and

1 "(8) with respect to wages received after Decem-
2 ber 31, 1989, the rate shall be 6.20 percent.".
3 (2) TAX ON EMPLOYERS.—Subsection (a) of sec-
4 tion 3111 (relating to rate of tax on employers for old-
5 age, survivors, and disability insurance) is amended by
6 striking out paragraphs (5) through (7) and inserting in
7 lieu thereof the following:
8 "(5) with respect to wages paid during the calen-
9 dar years 1982 and 1983, the rate shall be 5.40 per-
10 cent;
11 "(6) with respect to wages paid during the calen-
12 dar years 1984 through 1987, the rate shall be 5.70
13 percent;
14 "(7) with respect to wages paid during the calen-
15 dar years 1988 and 1989, the rate shall be 6.06 per-
16 cent; and
17 "(8) with respect to wages paid after December
18 31, 1989, the rate shall be 6.20 percent.".
19 (3) CONFORMING AMENDMENT TO RAILROAD RE-
20 TIREMENT TAX ACT.—Section 3231 (relating to defi-
21 nitions) is amended by adding at the end thereof the
22 following new subsection:
23 "(i) TAXES IMPOSED BY SECTIONS 3101(a) AND
24 3111(a).—For purposes of this chapter, the rates of tax im-
25 posed by sections 3101(a) and 3111(a) shall be determined

1 without regard to the amendments made by the Social Secu-
2 rity Amendments of 1983.".

3 (b) CREDIT FOR EMPLOYEE FICA TAXES ATTRIBUT-
4 ABLE TO ACCELERATION OF THE INCREASE IN THE RATE
5 OF TAX.—

6 (1) IN GENERAL.—Subchapter B of chapter 65
7 (relating to rules of special application for abatements,
8 credits, and refunds) is amended by inserting at the end
9 thereof the following new section:

10 **"SEC. 6430. CREDIT FOR CERTAIN 1984 EMPLOYEE FICA**
11 **TAXES.**

12 "(a) ALLOWANCE OF CREDIT.—There shall be allowed
13 as a credit against the tax imposed by subtitle A for any
14 taxable year which begins in (and ends with or after) calendar
15 year 1984 an amount equal to the product of—

16 "(1) .003, multiplied by

17 "(2) the amount of wages received by the taxpay-
18 er during calendar year 1984 with respect to which—

19 "(A) a tax was imposed by section 3101(a),
20 or

21 "(B) a payment was made under an agree-
22 ment under section 218 of the Social Security
23 Act.

24 "(b) CREDIT TO BE REFUNDABLE.—For purposes of
25 this title (other than subpart A of part IV of subchapter A of

1 chapter 1 and chapter 63), the credit allowed by subsection
2 (a) shall be treated as if it were allowed by section 31 and not
3 this section.

4 "(c) WAGES DEFINED.—For purposes of this section,
5 the term 'wages' has the meaning given to such term by
6 section 3121(a), except that such term also includes remu-
7 neration covered by an agreement under section 218 of the
8 Social Security Act.

9 "(d) COORDINATION WITH ADVANCE PAYMENTS
10 UNDER SECTION 3510.—

11 "(1) RECONCILIATION OF PAYMENTS ADVANCED
12 AND CREDIT ALLOWED.—If any payment is made to
13 the taxpayer by an employer under section 3510
14 during 1984, then the tax imposed by this chapter for
15 the taxable year to which subsection (a) applies shall
16 be increased by the aggregate amount of such pay-
17 ments.

18 "(2) EFFECT OF RECONCILIATION ON OTHER
19 CREDITS.—Any increase in tax under paragraph (1)
20 shall not be treated as tax imposed by this chapter for
21 purposes of determining the amount of any credit
22 (other than the credit allowed by subsection (a)) allow-
23 able under this subpart.".

1 (2) CONFORMING AMENDMENT.—The table of
2 sections for subchapter B of chapter 65 is amended by
3 adding at the end thereof the following new item:

"Sec. 6430. Credit for certain 1984 employee FICA taxes.".

4 (c) ADVANCE PAYMENT OF SOCIAL SECURITY
5 CREDIT.—
6 (1) IN GENERAL.—Chapter 25 (relating to gener-
7 al provisions involving employment taxes) is amended
8 by adding at the end thereof the following new section:
9 **"SEC. 3510. ADVANCE PAYMENT OF 1984 FICA TAX CREDIT.**
10 "(a) IN GENERAL.—Except as otherwise provided in
11 this section, every employer making payment of wages to an
12 employee shall, at the time of paying such wages, make an
13 additional payment to such employee equal to the product
14 of—
15 "(1) .003, multiplied by,
16 "(2) the amount of such wages with respect to
17 which—
18 "(A) a tax is imposed by section 3101(a) for
19 the payroll period, or
20 "(B) a payment was made under an agree-
21 ment under section 218 of the Social Security
22 Act.
23 "(b) PAYMENTS TO BE TREATED AS PAYMENTS OF
24 FICA TAXES.—

1 "(1) EMPLOYEE PAYMENTS.—For purposes of
2 this title, payments made by an employer under sub-
3 section (a) to his employees for any payroll period—
4 "(A) shall not be treated as the payment of
5 compensation, and
6 "(B) shall be treated as made out of amounts
7 required to be deducted for the payroll period
8 under section 3102 (relating to FICA employee
9 taxes), and as if the employer had paid to the
10 Secretary, on the day on which the wages are
11 paid to the employees, an amount equal to such
12 payments.
13 "(2) FAILURE TO MAKE ADVANCE PAYMENTS.—
14 For purposes of this title (including penalties). failure
15 to make any advance payment under subsection (a) at
16 the time provided therefor shall be treated as the fail-
17 ure at such time to deduct and withhold under sub-
18 chapter A of chapter 24 an amount equal to the
19 amount of such advance payment.
20 "(c) DEFINITIONS.—For purposes of this section—
21 "(1) WAGES.—The term 'wages' has the meaning
22 given such term by section 6430(c).
23 "(2) EMPLOYER.—The term 'employer' includes
24 any person treated as an employer under any agree-

1 ment made pursuant to section 218 of the Social Secu-
2 rity Act.".
3 (2) CONFORMING AMENDMENTS.—
4 (A) Section 6302 (relating to mode or time
5 of collection) is amended by adding at the end
6 thereof the following new subsection:
7 "(e) CROSS REFERENCE.—

"For treatment of payment of FICA tax credit advance amounts as payment of withholding and FICA taxes, see section 3510(b).".

8 (B) The table of sections for chapter 25 is
9 amended by adding at the end thereof the follow-
10 ing new item:

"Sec. 3510. Advance payment of 1984 FICA tax credit.".

11 (d) EFFECTIVE DATE.—The amendments made by this
12 section shall apply only with respect to remuneration re-
13 ceived or paid, and taxable years beginning, after December
14 31, 1983.

15 **SEC. 304. SELF-EMPLOYMENT TAXES.**

16 (a) INCREASE IN RATE OF TAX.—Subsection (a) of sec-
17 tion 1401 (relating to the old-age, survivors, and disability
18 insurance tax on self-employment income) is amended by
19 striking out paragraphs (5), (6), and (7) and inserting in lieu
20 thereof the following:
21 "(5) in the case of any taxable year beginning
22 after December 31, 1981, and before January 1, 1984,

1 the tax shall be equal to 8.05 percent of the amount of
2 the self-employment income for such taxable year;
3 "(6) in the case of any taxable year beginning
4 after December 31, 1983, and before January 1, 1988,
5 the tax shall be equal to 11.40 percent of the amount
6 of the self-employment income for such taxable year;
7 "(7) in the case of any taxable year beginning
8 after December 31, 1987, and before January 1, 1990,
9 the tax shall be equal to 12.12 percent of the amount
10 of the self-employment income for such taxable year;
11 and
12 "(8) in the case of any taxable year beginning
13 after December 31, 1989, the tax shall be equal to
14 12.40 percent of the amount of the self-employment
15 income for such taxable year.".
16 (b) ALLOWANCE OF DEDUCTION FOR 50 PERCENT OF
17 THE SELF-EMPLOYMENT TAX.—
18 (1) ALLOWANCE OF DEDUCTION.—
19 (A) IN GENERAL.—Part VII of subchapter B
20 of chapter 1 (relating to additional itemized de-
21 ductions for individuals) is amended by redes-
22 ignating section 223 as section 224 and by insert-
23 ing after section 222 the following new section:

1 "SEC. 223. DEDUCTION FOR 50 PERCENT OF SELF-EMPLOY-
2 MENT TAXES.

3 "There shall be allowed as a deduction for the taxable
4 year an amount equal to 50 percent of the tax imposed by
5 section 1401(a) which is paid or accrued by the taxpayer
6 during such taxable year.".

7 (B) DEDUCTION ALLOWED IN COMPUTING
8 ADJUSTED GROSS INCOME.—Section 62 (defining
9 adjusted gross income) is amended by inserting
10 after paragraph (16) the following new paragraph:
11 "(17) SELF-EMPLOYMENT TAXES.—The deduc-
12 tion allowed by section 223.".

13 (2) CONFORMING AMENDMENTS.—

14 (A) Paragraph (1) of section 275(a) (relating
15 to disallowance of deductions for certain taxes) is
16 amended—

17 (i) by striking out "and" at the end of
18 subparagraph (B),

19 (ii) by striking out the period at the end
20 of subparagraph (C) and inserting in lieu
21 thereof a semicolon and "and"; and

22 (iii) by adding at the end thereof the fol-
23 lowing new subparagraph:

24 "(D) the taxes imposed by section 1401 (re-
25 lating to self-employment taxes) to the extent a

1 deduction is not allowed with respect to such
2 taxes under section 223.".
3 (B) Subsection (b) of section 1403 (relating
4 to cross references) is amended by adding at the
5 end thereof the following new paragraph:
6 "(4) For provisions relating to deductibility of self-
7 employment taxes, see sections 223 and 275(a)(1)(D).".
8 (C) Subsection (a) of section 1402 (defining
9 net earnings from self-employment) is amended by
10 inserting "(other than the deduction allowed by
11 section 223)" after "trade or business" the second
12 place it appears.
13 (D) The table of sections for part VII of sub-
14 chapter B of chapter 1 is amended by striking out
15 the item relating to section 223 and inserting in
16 lieu thereof the following new items:

"Sec. 223. Deduction for 50 percent of self-employment taxes.
"Sec. 224. Cross References.".

17 (c) EFFECTIVE DATE.—The amendments made by this
18 section shall apply to taxable years beginning after December
19 31, 1983.

20 **SEC. 305. COVERAGE OF PAYMENTS UNDER SALARY-REDUC-**
21 **TION PLANS.**

22 (a) DEFINITION OF WAGES.—
23 (1) INTERNAL REVENUE CODE OF 1954.—Section
24 3121(a)(5)(A) (defining wages) is amended by inserting

1 "is a payment under a qualified cash or deferred ar-
2 rangement under section 401(k) or" after "unless such
3 payment".

4 (2) SOCIAL SECURITY ACT.—Section 209(e)(1) of
5 the Social Security Act is amended by inserting "is a
6 payment under a qualified cash or deferred arrange-
7 ment under section 401(k) of the Internal Revenue
8 Code of 1954 or" after "unless such payment".

9 (b) EFFECTIVE DATE.—The amendments made by sub-
10 section (a) shall apply with respect to payments made after
11 December 31, 1983.

12 TITLE IV—MISCELLANEOUS FINANCING
13 PROVISIONS

14 ALLOCATIONS TO DISABILITY INSURANCE TRUST FUND

15 SEC. 401. (a) Section 201(b)(1) of the Social Security
16 Act is amended by striking out clauses (K) through (M) and
17 inserting in lieu thereof the following: "(K) 1.65 per centum
18 of the wages (as so defined) paid after December 31, 1981,
19 and before January 1, 1984, and so reported, (L) 0.50 per
20 centum of the wages (as so defined) paid after December 31,
21 1983, and before January 1, 1985, and so reported, (M) 1.00
22 per centum of the wages (as so defined) paid after December
23 31, 1984, and before January 1, 1990, and so reported, and
24 (N) 1.60 per centum of the wages (as so defined) paid after
25 December 31, 1989, and so reported,".

1 (b) Section 201(b)(2) of such Act is amended by striking
2 out clauses (K) through (M) and inserting in lieu thereof the
3 following: "(K) 1.2375 per centum of the amount of self-
4 employment income (as so defined) so reported for any tax-
5 able year beginning after December 31, 1981, and before
6 January 1, 1984, (L) 0.50 per centum of the amount of self-
7 employment income (as so defined) so reported for any tax-
8 able year beginning after December 31, 1983, and before
9 January 1, 1985, (M) 1.00 per centum of the amount of self-
10 employment income (as so defined) so reported for any tax-
11 able year beginning after December 31, 1984, and before
12 January 1, 1990, and (N) 1.60 per centum of the self-em-
13 ployment income (as so defined) so reported for any taxable
14 year beginning after December 31, 1989,".

15 INTERFUND BORROWING EXTENSION

16 SEC. 402. (a) Section 201(l)(1) of the Social Security
17 Act is amended by striking out "January 1983" and insert-
18 ing in lieu thereof "January 1988".

19 (b) Section 1817 of such Act is amended by striking out
20 subsection (j) thereof.

21 CREDITING AMOUNTS OF UNNEGOTIATED CHECKS TO
22 TRUST FUNDS

23 SEC. 403. (a) The Secretary of the Treasury shall take
24 such actions as may be necessary to ensure that amounts of
25 checks for benefits under title II of the Social Security Act

1 which have not been presented for payment within a reason-
2 able length of time (not to exceed twelve months) after issu-
3 ance are credited to the Federal Old-Age and Survivors In-
4 surance Trust Fund or the Federal Disability Insurance
5 Trust Fund, whichever may be the fund from which the
6 check was issued. Amounts of any such check shall be re-
7 charged to the fund from which they were issued if payment
8 is subsequently made on such check.

9 (b)(1) The Secretary of the Treasury shall transfer from
10 the general fund of the Treasury to the Federal Old-Age and
11 Survivors Insurance Trust Fund and to the Federal Disabil-
12 ity Insurance Trust Fund, as appropriate, such sums as may
13 be necessary to reimburse such Trust Funds in the total
14 amounts of all currently unnegotiated benefit checks. After
15 the amounts appropriated by this subsection have been trans-
16 ferred to the Trust Funds, the provisions of subsection (a)
17 shall be applicable. There are hereby appropriated into such
18 Trust Funds such sums as may be necessary to reimburse
19 such Trust Funds for the amount of currently unnegotiated
20 benefit checks. The first such transfer shall be made within
21 thirty days after the date of the enactment of this Act with
22 respect to all such unnegotiated checks as of such date of
23 enactment.

24 (2) As used in paragraph (1), the term "currently unne-
25 gotiated benefit checks" means the checks issued under title

1 II of the Social Security Act prior to the date of the enact-
2 ment of this Act, which remain unnegotiated after the twelfth
3 month following the date on which they were issued.

4 TRANSFER TO TRUST FUNDS FOR BENEFITS
5 ATTRIBUTABLE TO MILITARY SERVICE BEFORE 1957

6 SEC. 404. (a) Section 217(g) of the Social Security Act
7 is amended to read as follows:

8 "Appropriation to Trust Funds

9 "(g)(1) Within thirty days after the date of the enact-
10 ment of the Social Security Amendments of 1983, the Secre-
11 tary shall determine the amounts which are the amounts esti-
12 mated to be necessary to be transferred into each of the Fed-
13 eral Old-Age and Survivors Insurance Trust Fund, the Fed-
14 eral Disability Insurance Trust Fund, and the Federal Hospi-
15 tal Insurance Trust Fund on such date of enactment so that
16 each such Trust Fund will be in the same position at the
17 close of September thirty, 2015 as each such Trust Fund
18 would otherwise be in at the close of September thirty, 2015
19 if section 210 of this Act as in effect prior to the Social Secu-
20 rity Act Amendments of 1950, and this section, had not been
21 enacted (less any amounts previously transferred under the
22 provisions of this subsection as in effect prior to the date of
23 the enactment of the Social Security Amendments of 1983).
24 The rate of interest to be used in initially determining such
25 amount shall be the rate determined under section 201(f) for

1 public debt obligations which were or could have been issued
2 for purchase by such Trust Funds on the date of the enact-
3 ment of the Social Security Amendments of 1983, and the
4 assumptions with respect to future increases in wage and
5 price levels shall be consistent with such rate of interest. The
6 Secretary of the Treasury shall transfer the amounts deter-
7 mined under this paragraph into such Trust Funds from the
8 general fund in the Treasury within thirty days after the date
9 of the enactment of the Social Security Amendments of
10 1983. There are hereby appropriated into such Trust Funds
11 sums equal to the amounts to be transferred in accordance
12 with this paragraph into such Trust Funds.
13 "(2) The Secretary shall revise the amount determined
14 under paragraph (1) within one year after the date of the
15 transfer made under paragraph (1), and every five years
16 thereafter, as warranted by data which may become available
17 to him after the date of the transfer under paragraph (1)
18 based upon actual benefits paid under this title and title
19 XVIII. Any amounts determined to be needed for transfer
20 shall be transferred annually by the Secretary of the Treas-
21 ury into the appropriate Trust Fund from the general fund in
22 the Treasury, or out of the appropriate Trust Fund into the
23 general fund in the Treasury, as may be appropriate. There
24 are authorized to be appropriated to such Trust Funds sums

1 equal to the amounts to be transferred in accordance with
2 this paragraph into such Trust Funds.".

3 PAYMENTS TO TRUST FUNDS OF AMOUNTS EQUIVALENT
4 TO TAXES ON SERVICE IN THE UNIFORMED SERVICES
5 PERFORMED AFTER 1956

6 SEC. 405. (a) Section 229(b) of the Social Security Act
7 is amended to read as follows:

8 "(b) There are authorized to be appropriated to the Fed-
9 eral Old-Age and Survivors Insurance Trust Fund, the Fed-
10 eral Disability Insurance Trust Fund, and the Federal Hospi-
11 tal Insurance Trust Fund, for each fiscal year, amounts equal
12 to the additional amounts which would be appropriated into
13 each such Trust Fund for such fiscal year under sections 201
14 and 1817 of this Act if the amounts of the additional wages
15 deemed to have been paid by reason of subsection (a) consti-
16 tuted remuneration for employment (as defined in section
17 3121(b) of the Internal Revenue Code of 1954) for purposes
18 of the taxes imposed by sections 3101 and 3111 of the Inter-
19 nal Revenue Code of 1954.".

20 (b) The amendment made by subsection (a) shall be ef-
21 fective with respect to wages deemed to have been paid for
22 calendar years after 1982.

23 (c)(1) Within thirty days after the date of the enactment
24 of this Act, the Secretary of Health and Human Services
25 shall determine the amounts equal to the additional amounts

1 which would have been appropriated into the Federal Old-
2 Age and Survivors Insurance Trust Fund, the Federal Dis-
3 ability Insurance Trust Fund, and the Federal Hospital In-
4 surance Trust Fund under sections 201 and 1817 of the
5 Social Security Act, if the additional wages deemed to have
6 been paid under section 229(a) of the Social Security Act
7 prior to 1983 had constituted remuneration for employment
8 (as defined in section 3121(b) of the Internal Revenue Code
9 of 1954) for purposes of the taxes imposed by sections 3101
10 and 3111 of the Internal Revenue Code of 1954, and the
11 amount of interest which would have been earned on such
12 amounts if they had been so appropriated.

13 (2)(A) The Secretary of the Treasury shall, within thirty
14 days after the date of the enactment of this Act, transfer into
15 each such Trust Fund, from the general fund in the Treasury,
16 an amount equal to the amount determined with respect to
17 such Trust Fund under paragraph (1), less any amount ap-
18 propriated into such Trust Fund under the provisions of sec-
19 tion 229(b) of the Social Security Act prior to the date of the
20 determination made under paragraph (1) with respect to
21 wages deemed to have been paid for calendar years prior to
22 1983. There are hereby appropriated into such Trust Funds
23 sums equal to the amounts to be transferred in accordance
24 with this subparagraph into such Trust Funds.

1 (B) The Secretary shall revise the amount determined
2 under subparagraph (A) within one year after the date of the
3 transfer made under paragraph (1), as warranted by data
4 which may become available to him after the date of the
5 transfer under subparagraph (A) based upon actual benefits
6 paid under this title and title XVIII. Any amounts deter-
7 mined to be needed for transfer shall be transferred by the
8 Secretary of the Treasury into the appropriate Trust Fund
9 from the general fund in the Treasury, or out of the appropri-
10 ate Trust Fund into the general fund in the Treasury, as may
11 be appropriate. There are authorized to be appropriated to
12 such Trust Funds sums equal to the amounts to be trans-
13 ferred in accordance with this subparagraph into such Trust
14 Funds.

15 TRUST FUND INVESTMENT PROCEDURE

16 SEC. 406. (a) Section 201 of the Social Security Act is
17 amended by striking out subsections (d), (e), and (f) and in-
18 serting in lieu thereof the following new subsections:

19 "(d) There are hereby created on the books of the
20 Treasury of the United States an account to be known as the
21 Old-Age and Survivors Insurance Depositary Account and an
22 account to be known as the Disability Insurance Depositary
23 Account.

24 "(e) The Managing Trustee shall deposit that portion of
25 the Federal Old-Age and Survivors Insurance Trust Fund

1 not required to meet current withdrawals from such Trust
2 Fund in the Old-Age and Survivors Insurance Depositary
3 Account and that portion of the Federal Disability Insurance
4 Trust Fund not required to meet current withdrawals from
5 such Trust Fund in the Disability Insurance Depositary Ac-
6 count.

7 "(f)(1) The Secretary of the Treasury may apply moneys
8 deposited in an account pursuant to subsection (e) in any way
9 in which he is authorized by law to apply moneys in the
10 general fund of the Treasury.

11 "(2)(A) Moneys deposited in an account pursuant to sub-
12 section (e) shall be treated as indebtedness of the United
13 States for purposes of section 1305(2) of title 31, United
14 States Code, and shall earn interest, payable monthly, in an
15 amount equal to the product obtained by multiplying the
16 average balance of moneys in the account for such month by
17 the average market yield (computed by the Managing
18 Trustee on the basis of market quotations as of the end of
19 each day of the previous month) on all marketable interest-
20 bearing obligations of the United States then forming a part
21 of the public debt which are not due or callable until after the
22 expiration of four years from the end of such previous month,
23 except that 'flower bonds' shall not be included in such com-
24 putation.

1 "(B) For purposes of this paragraph, the term 'flower
2 bond' means a United States Treasury bond which was
3 issued before March 4, 1971 and which may, at the option of
4 the duly constituted representatives of the estate of a de-
5 ceased individual, be redeemed at par (face) value, plus ac-
6 crued interest to the date of payment, if—
7 "(i) it was owned by such deceased individual at
8 the time of his death,
9 "(ii) it is part of the estate of such deceased indi-
10 vidual, and
11 "(iii) such representatives authorize the Secretary
12 of the Treasury to apply the entire proceeds of the re-
13 demption of such bond to the payment of Federal
14 estate taxes.
15 "(3) The Managing Trustee may withdraw moneys de-
16 posited in an account pursuant to subsection (e) whenever he
17 determines that such moneys are necessary to meet current
18 withdrawals from the Trust Fund which deposited such
19 moneys, and the Secretary of the Treasury may sell obliga-
20 tions of the United States in the market in an amount not to
21 exceed the amount of such withdrawal if he determines that
22 such withdrawal necessitates an increase in the general fund
23 of the Treasury by an amount not exceeding such amount.".

1 (b) Section 1817 of such Act is amended by striking out
2 subsections (c), (d), and (e) and inserting in lieu thereof the
3 following new subsections:
4 "(c) There is hereby created on the books of the Treas-
5 ury of the United States an account to be known as the Hos-
6 pital Insurance Depositary Account.
7 "(d) The Managing Trustee shall deposit that portion of
8 the Federal Hospital Insurance Trust Fund not required to
9 meet current withdrawals from such Trust Fund in the Hos-
10 pital Insurance Depositary Account.
11 "(e)(1) The Secretary of the Treasury may apply
12 moneys deposited in the account pursuant to subsection (d) in
13 any way in which he is authorized by law to apply moneys in
14 the general fund of the Treasury.
15 "(2)(A) Moneys deposited in the account pursuant to
16 subsection (d) shall be treated as indebtedness of the United
17 States for purposes of section 1305(2) of title 31, United
18 States Code, and shall earn interest, payable monthly, in an
19 amount equal to the product obtained by multiplying the
20 average balance of moneys in the account for such month by
21 the average market yield (computed by the Managing Trust-
22 ee on the basis of market quotations as of the end of each day
23 of the previous month) on all marketable interest-bearing ob-
24 ligations of the United States then forming a part of the
25 public debt which are not due or callable until after the expi-

1 ration of four years from the end of such previous month,
2 except that 'flower bonds' shall not be included in such com-
3 putation.

4 "(B) For purposes of this paragraph, the term 'flower
5 bond' means a United States Treasury bond which was
6 issued before March 4, 1971, and which may, at the option of
7 the duly constituted representatives of the estate of a de-
8 ceased individual, be redeemed at par (face) value, plus ac-
9 crued interest to the date of payment, if—

10 "(i) it was owned by such deceased individual at
11 the time of his death,

12 "(ii) it is part of the estate of such deceased indi-
13 vidual, and

14 "(iii) such representatives authorize the Secretary
15 of the Treasury to apply the entire proceeds of the re-
16 demption of such bond to the payment of Federal
17 estate taxes.

18 "(3) The Managing Trustee may withdraw moneys de-
19 posited in the account pursuant to subsection (d) whenever he
20 determines that such moneys are necessary to meet current
21 withdrawals from the Trust Fund, and the Secretary of the
22 Treasury may sell obligations of the United States in the
23 market in an amount not to exceed the amount of such with-
24 drawal if he determines that such withdrawal necessitates an

1 increase in the general fund of the Treasury by an amount
2 not exceeding such amount.".

3 (c) Section 1841 of such Act is amended by striking out
4 subsections (c), (d), and (e) and inserting in lieu thereof the
5 following new subsections:

6 "(c) There is hereby established on the books of the
7 Treasury an account to be known as the Supplementary
8 Medical Insurance Depositary Account.

9 "(d) The Managing Trustee shall deposit that portion of
10 the Federal Supplementary Medical Insurance Trust Fund
11 not required to meet current withdrawals from such Trust
12 Fund in the Supplementary Medical Insurance Depositary
13 Account.

14 "(e)(1) The Secretary of the Treasury may apply
15 moneys deposited in the account pursuant to subsection (d) in
16 any way in which he is authorized by law to apply moneys in
17 the general fund of the Treasury.

18 "(2)(A) Moneys deposited in the account pursuant to
19 subsection (d) shall be treated as indebtedness of the United
20 States for purposes of section 1305(2) of title 31, United
21 States Code, and shall earn interest, payable monthly, in an
22 amount equal to the product obtained by multiplying the
23 average balance of moneys in the account for such month by
24 the average market yield (computed by the Managing Trust-
25 ee on the basis of market quotations as of the end of each day

1 of the previous month) on all marketable interest-bearing ob-
2 ligations of the United States then forming a part of the
3 public debt which are not due or callable until after the expi-
4 ration of four years from the end of such previous month,
5 except that 'flower bonds' shall not be included in such com-
6 putation.

7 "(B) For purposes of this paragraph, the term 'flower
8 bond' means a United States Treasury bond which was
9 issued before March 4, 1971, and which may, at the option of
10 the duly constituted representatives of the estate of a de-
11 ceased individual, be redeemed at par (face) value, plus ac-
12 crued interest to the date of payment, if—

13 "(i) it was owned by such deceased individual at
14 the time of his death,

15 "(ii) it is part of the estate of such deceased indi-
16 vidual, and

17 "(iii) such representatives authorize the Secretary
18 of the Treasury to apply the entire proceeds of the re-
19 demption of such bond to the payment of Federal
20 estate taxes.

21 "(3) The Managing Trustee may withdraw moneys de-
22 posited in the account pursuant to subsection (d) whenever he
23 determines that such moneys are necessary to meet current
24 withdrawals from the Trust Fund, and the Secretary of the
25 Treasury may sell obligations of the United States in the

1 market in an amount not to exceed the amount of such with-
2 drawal if he determines that such withdrawal necessitates an
3 increase in the general fund of the Treasury by an amount
4 not exceeding such amount.".

5 (d)(1) Not later than thirty days after the date of enact-
6 ment of this Act, the Secretary of the Treasury shall redeem
7 at par all outstanding obligations of the United States issued
8 under the Second Liberty Bond Act exclusively for purchase
9 by the Federal Old-Age Insurance Trust Fund, the Federal
10 Disability Insurance Trust Fund, the Federal Hospital Insur-
11 ance Trust Fund, and the Federal Supplementary Medical
12 Insurance Trust Fund (hereinafter in this subsection referred
13 to as the "Trust Funds").

14 (2)(A) The Managing Trustee may sell any marketable
15 obligation of the United States held by the Trust Funds at
16 market price at any time and shall sell (or redeem) all
17 "flower bonds" held by the Trust Funds at market price
18 within thirty days of the date of enactment of this Act.

19 (B) For purposes of this paragraph, the term "flower
20 bond" means a United States Treasury bond which was
21 issued before March 4, 1971, and which may, at the option of
22 the duly constituted representatives of the estate of a de-
23 ceased individual, be redeemed at par (face) value, plus ac-
24 crued interest to the date of payment, if—

1 (i) it was owned by such deceased individual at
2 the time of his death,
3 (ii) it is part of the estate of such deceased indi-
4 vidual, and
5 (iii) such representatives authorize the Secretary
6 of the Treasury to apply the entire proceeds of the re-
7 demption of such bond to the payment of Federal
8 estate taxes.
9 (3) The proceeds from the redemption and sale of obliga-
10 tions of the United States pursuant to paragraphs (1) and (2)
11 shall be paid to the Trust Fund selling or redeeming such
12 obligations and that portion of such proceeds which is not
13 required to meet current withdrawals from such Trust Fund
14 shall be deposited in the account established with respect to
15 such Trust Fund by subsection (a), (b), or (c) of this Act.
16 (e) The amendments made by this Act shall take effect
17 on the first day of the month following the date of enactment
18 of this Act.

19 ADDITION OF PUBLIC MEMBERS TO TRUST FUND BOARDS
20 OF TRUSTEES

21 SEC. 407. (a) Sections 201(c), 1817(b), and 1841(b) of
22 the Social Security Act are each amended by striking out the
23 period at the end of the first sentence and inserting in lieu
24 thereof a comma and "and of two members of the public
25 (both of whom may not be from the same political party),

1 who shall be nominated by the President for a term of four
2 years and subject to confirmation by the Senate.".
3 (b) The amendments made by subsection (a) shall
4 become effective on the date of enactment of this Act.

O

AMENDMENT NO. 1

Purpose: To increase the retirement age at which full benefits are paid.

IN THE SENATE OF THE UNITED STATES—98th Cong., 1st Sess.

S. 1

To implement a majority recommendation of the National Commission on Social Security Reform.

January 26 (legislative day, January 25), 1983

Referred to the Committee on Finance and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by Mr. DOLE (for himself, Mr. ARMSTRONG, Mr. LAXALT, Mr. DANFORTH, Mr. STAFFORD, and Mr. KENNEDY)

Viz: At the end of title II add the following new section:

1 INCREASE IN RETIREMENT AGE

2 SEC. 209. (a) Section 216 of the Social Security Act is
3 amended by inserting before subsection (b) the following new
4 subsection:

5 "Retirement Age

6 "(a)(1) The term 'retirement age' means—

7 "(A) with respect to an individual who attains the
8 early retirement age (as defined in paragraph (2))
9 before January 1, 2000, 65 years of age; and

1 "(B) with respect to an individual who attains
2 early retirement age after December 31, 1999, 65
3 years of age plus the number of months in the age-in-
4 crease factor (as determined under paragraph (3)) for
5 the year in which such individual attains early retire-
6 ment age.

7 "(2) The term 'early retirement age' means age 62 in
8 the case of an old-age, wife's, or husband's benefit, and age
9 60 in the case of a widow's or widower's benefit.

10 "(3) The age increase factor for individuals who attain
11 early retirement age in any calendar year shall be determined
12 as follows:

13 "(A) With respect to individuals who attain early
14 retirement age in the 12-year period consisting of the
15 calendar years 2000 through 2011, the age increase
16 factor shall be equal to one twelfth of the number of
17 months in the period beginning with January 2000 and
18 ending with December of the year in which the individ-
19 ual attains early retirement age.

20 "(B) With respect to individuals who attain early
21 retirement age in the 10-year period beginning with
22 calendar year 2012 or with any tenth calendar year
23 thereafter, the age increase factor shall be the number
24 of months equal to the sum of the age increase factor

1 in effect for individuals attaining early retirement age
2 in the last year of the preceding 10-year period plus—
3 "(i) with respect to individuals attaining
4 early retirement age in the last year of such 10-
5 year period, the number of months equal to the
6 'age increase adjustment factor' (as determined
7 under paragraph (4)) for such last year, and
8 "(ii) with respect to individuals attaining
9 early retirement age in any of the first nine years
10 of such period, the number of months equal to the
11 product of (I) one tenth of the age increase adjust-
12 ment factor described in clause (i), and (II) the
13 number of years in the period beginning with the
14 first year of such 10-year period and ending with
15 the year in which such individual attains early re-
16 tirement age (rounded to the nearest whole
17 month).
18 "(4)(A) The term 'age increase adjustment factor' means
19 for any 10-year period the number equal to the number of
20 months by which the retirement age for individuals attaining
21 early retirement age in the last year of such 10-year period
22 (determined under subparagraph (B)) exceeds the retirement
23 age for individuals attaining early retirement age in the last
24 year of the preceding 10-year period.

1 "(B) The retirement age for the last year of any 10-year
2 period (beginning after 2011), hereafter in this paragraph re-
3 ferred to as the 'determination year', shall be that age
4 (rounded to the nearest whole month) which if applied to indi-
5 viduals attaining early retirement age in the twenty-first year
6 preceding such determination year, would yield a ratio, ac-
7 cording to the official life table for such twenty-first preced-
8 ing year, of—
9 "(i) the expectation of life at such retirement age,
10 to
11 "(ii) such retirement age minus 20,
12 which is the same (or closest to) the ratio determined under
13 subparagraph (C) for such determination year.
14 "(C) The ratio under this subparagraph is the ratio of—
15 "(i) the expectation of life at the retirement age
16 applicable to individuals who attained early retirement
17 age in the thirty-first year preceding such determina-
18 tion year, according to the official life table for such
19 thirty-first preceding year, to
20 "(ii) the retirement age described in clause (i)
21 minus 20.
22 "(D) For purposes of this paragraph, the term 'official
23 life table' means the life table for total persons in the United
24 States that is prepared decennially by the National Center for
25 Health Statistics for the 3-year period centering around the

1 year of the decennial population census (and such tables shall
2 be referred to as relating to such census year).".

3 (b) Section 202(q)(9) of such Act is amended to read as
4 follows:

5 "(9) The reduction factors for early retirement specified
6 in paragraph (1) shall be periodically revised by the Secretary
7 such that—

8 "(A) for old-age insurance benefits, wife's insur-
9 ance benefits, and husband's insurance benefits, the re-
10 duction factors applicable to an individual entitled to
11 such a benefit at an age not more than 3 years lower
12 than the retirement age applicable to such individual,
13 shall be the same as under such paragraph (1), and
14 such factors shall be increased by five twelfths of 1
15 percent for each month below that age which is 3
16 years lower than the applicable retirement age; and

17 "(B) for widow's insurance benefits and widower's
18 insurance benefits, the reduction factors for those enti-
19 tled to such benefits at the earliest possible early re-
20 tirement age shall be the same as specified in para-
21 graph (1), and those for later ages shall be established
22 by linear interpolation between the applicable reduction
23 factor for such earliest possible early retirement age
24 and a factor of unity at the applicable retirement
25 age.".

1 (c) The Social Security Act is amended—

2 (1) by striking out "age 65" or "age of 65", as
3 the case may be, each place it appears in the following
4 sections and inserting in lieu thereof in each instance
5 "retirement age (as defined in section 216(a))":

6 (A) subsections (a), (b), (c), (d), (e), (f), (q),
7 (r), and (w) of section 202,

8 (B) subsections (c), (f), (h), and (j) of section
9 203,

10 (C) section 209(r),

11 (D) section 211(b)(3),

12 (E) subsections (f) and (i) of section 215,

13 (F) subsections (h) and (i) of section 216,

14 (G) section 223(a),

15 (H) subsections (a), (b), (c), and (e) of section
16 226,

17 (I) section 1811,

18 (J) section 1818(a)(1),

19 (K) section 1836(2),

20 (L) section 1837, and

21 (M) section 1838;

22 (2) by striking out "age sixty-five" in section
23 203(c) and inserting in lieu thereof "retirement age (as
24 defined in section 216(a))"; and

1 (3) by striking out "age of sixty-five" in section
2 223(a) and inserting in lieu thereof "retirement age (as
3 defined in section 216(a))".

Amendment No. 1

S. 1

98TH CONGRESS
1st Session

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Data and Materials for the

Fiscal Year 1984

Finance Committee Report

Under the

Congressional Budget Act

Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

ROBERT J. DOLE, *Chairman*

FEBRUARY 1983

Printed for the use of the Committee on Finance

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SUMMARY: IMPACT OF CONGRESSIONAL BUDGET ACT ON FINANCE COMMITTEE

The Congressional Budget Act of 1974 (titles I-IX of Public Law 93-344), provides the mechanisms and procedures for Congress to establish its own annual Federal budget and to consider spending, revenue, and debt limit legislation in the context of that budget. The provisions of the act have a number of effects on the consideration of legislation handled by the Committee on Finance.

The major provisions affecting the Finance Committee are the following:

1. By March 15 of each year, the Finance Committee must submit a report to the Budget Committee estimating the effect that Finance Committee legislation will have on expenditures, revenues, and the debt limit during the next fiscal year, and presenting the committee's views and estimates with respect to revenues and the debt limit. By request of the Budget Committee this date was pushed up to March 1 for this year. (Last year's report appears in appendix A of this pamphlet.)

2. Certain kinds of legislation have to be handled before specific dates. Revenue and debt limit legislation for the upcoming fiscal year, and legislation increasing expenditures in such areas as social security and welfare, cannot be considered by the Senate before May 15. However, procedures are provided for waiving these restrictions, ordinarily by obtaining Budget Committee approval of a resolution permitting immediate Senate consideration. Authorizing legislation must be reported before May 15.

3. If the Finance Committee reports legislation affecting welfare, medicaid, social services, and other non-trust-fund entitlement programs, and it exceeds the amount budgeted in the most recent concurrent budget resolution, the legislation is to be referred to the Appropriations Committee for 15 days.

4. By May 15, Congress completes action on a first concurrent budget resolution for the coming fiscal year setting appropriate revenue, spending, and deficit levels. While the amounts shown in this first resolution are not binding in the sense that they can subject a bill to point of order, they are intended to serve as overall guidelines in the consideration of revenue and spending legislation.

5. In September of each year, the Congress debates and adopts a concurrent resolution setting appropriate spending, revenue, and debt limit levels for the coming fiscal year. The resolution can direct the Finance Committee to report legislation raising taxes or cutting back on spending programs within the committee's jurisdiction. The overall spending and revenue totals in the second resolution are binding.

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)

1. Overall View

OUTLINE OF CONGRESSIONAL BUDGET PROCESS UNDER PUBLIC LAW 93-344

On April 15 of each year, the Budget Committees of the House and Senate report to their respective Houses a concurrent resolution which is, in effect, a congressional budget document setting forth appropriate levels for spending, revenues and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment. When agreed to by House and Senate (by May 15), the resolution represents congressional judgment of the appropriate fiscal situation for the coming year, although the amounts set forth in it are not otherwise binding.

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills proceeds through early September. In the first half of September, a second concurrent resolution on the budget is considered by the Congress, which revises or reaffirms the earlier resolution and which can direct the appropriate committees to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, committees directed to do so are to report the legislation called for by the the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Public Law 93-344 calls for action on this reconciliation bill to be completed by September 25, 5 days before the start of the new Federal fiscal year which will run from October 1 to September 30.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

All the rules applicable to Senate procedures under the Congressional Budget Act can be suspended by a majority vote of the Senate. In addition, the act includes a special waiver procedure in connection with the provisions requiring that authorization bills not be acted on after May 15 and that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before May 15. If a committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for waiver of the rule. This resolution would be referred to the Budget Committee which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be voted upon by the Senate, and, if it is approved, the Senate could proceed to consider the legislation.

2. Impact of Public Law 93-344 on Finance Committee

LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each committee is required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year which will result from legislation under the committee's jurisdiction. By statute this report is due no later than March 15. In recent years, the Budget Committee has sent letters to each committee requesting that views also be provided with respect to the 5-year budgetary outlook. The date by which the Budget Committee wishes to report the First Budget Resolution has been advanced this year. As a result, the Budget Committee has asked the Finance Committee for its report by March 1.

Report after adoption of concurrent budget resolution.—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the House of Representatives, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution.

Limitation on consideration of spending bills.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare or medicaid) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the Senate prior to the adoption of the first concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the Senate to suspend this rule. The act also requires that action on legislation of this type be completed by the seventh day after Labor Day. In addition, entitlement legislation (other than trust fund legislation) reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) has to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The act includes a procedure under which this deadline may be waived by Senate resolution; the rule may also be suspended by a majority vote of the Senate.) The Committee on Finance has jurisdiction over some programs which fall in this category, such as grants to States for child welfare services and for maternal and child health. However, if such authorizations are included in social security trust fund bills (which may not be reported prior to May 15), this provision does not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which is to be passed by May 15, sets targets for spending in various areas. A second concurrent resolution is to be passed in mid-September, and this resolution not only sets appropriate spending levels but may direct the committees having jurisdiction over spending legislation to report measures to rescind

previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Finance, this may include a requirement that the committee report legislation to defer or reduce benefits under entitlement programs including both trust fund programs (such as unemployment insurance or social security) and non-trust-fund programs (such as welfare, social services or medicaid).

After the beginning of a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution passed just before the beginning of that year to be exceeded. In the case of the Committee on Finance, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new concurrent resolution could, however, be passed to authorize such additional spending, or the rule could be suspended by a majority vote of the Senate.)

While the budget totals included in the first resolution are in the nature of targets and are not strictly mandatory, they tend to establish fairly firmly the guidelines within which the Congress considers legislation affecting revenues and spending. Thus, if unrealistic objectives are used in setting first resolution totals, committees may subsequently find their ability to act on desired legislation impaired.

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, social services, or medicaid creates an entitlement to payments on the part of individuals or State or local governments even though these programs are funded through appropriations acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the most recent budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such amendment is approved by the Senate, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues. It would also not apply to legislation amending the general revenue sharing program to the extent that such legislation included an exemption from that requirement.

In the past, refundable tax credits were treated for purposes of the Congressional Budget Process as revenue reductions. Under revised procedures adopted in 1978, the budget process now treats the refundable aspects of such credits as "outlays" thus bringing them within the scope of the above described provisions related to Appropriations Committee review of entitlement bills. In addition, the

authority previously used for disbursing the refundable part of tax credits has been the permanent appropriation for tax refunds. This permanent appropriation was amended in 1978 so as to require annual appropriations for this purpose. The text of the provision reads as follows:

> "No disbursement may be made from the appropriation to the Treasury Department entitled 'Bureau of Internal Revenue Refunding Internal-Revenue Collections' except (a) refunds due from any credit provision of the Internal Revenue Code enacted prior to January 1, 1978.". (Sec. 304, P.L. 95-355.)

Report on spending legislation.—The Congressional Budget Act requires the committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent concurrent budget resolution and showing the extent to which the legislation provides financial aid to States and localities. In addition, the report is required, to the extent practicable, to provide a projection for five fiscal years of the spending which will result from the legislation.

LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

Annual report to the Budget Committee.—The March 15 annual report to the Budget Committee (due March 1 this year) which is described above also must, in the case of the Finance Committee, present its views and estimates of the committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not in order for consideration by the Senate (or House) prior to the adoption of the first concurrent resolution on the budget. This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the Senate.)

The exact wording of this provision of the Budget Act is not entirely clear. In 1978, the Senate Budget Committee adopted the position that this restriction required that there be no increase or decrease in revenues to become effective in the next fiscal year for which no budget resolution had been adopted. In other words, under this interpretation, there would always be one "closed year" for which no revenue change could be considered. Consequently, a point of order was raised during the consideration of the 1978 tax-cut bill (H.R. 13511) against an amendment by Senator Roth on the grounds that it provided for a revenue change effective in fiscal year 1980. (The first budget resolution for fiscal year 1980 would not have been adopted until approximately May 15, 1979.) The position of the Finance Committee was that this restriction in the Budget Act only applied from the beginning of the calendar year, when the process of developing the fiscal 1980 budget resolution has begun. Once that resolution has been approved, revenue changes may be considered throughout the remainder of the calendar year which would be effective for the fiscal year to which the resolution applies and for any future fiscal year.

The point of order raised by the Budget Committee was sustained by the chair, but the ruling of the chair was overturned by the Senate on a vote of 38 to 48. This occurred on October 5, 1978.

Impact of budget resolution.—As with spending measures, the first concurrent resolution adopted in mid-May sets targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September may direct the Committee on Finance to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines to be appropriate. Such legislation would have to be reported in time to be included in the reconcilation bill which would be acted upon before the October 1 start of the fiscal year. Once a second resolution on the budget is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the second budget resolution sets a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order. As indicated above in describing the impact of the resolution on spending legislation, even the "nonmandatory" first resolution tends to be given great weight in the actual consideration of legislation. Thus, if the first resolution includes unrealistic revenue goals, the committee may face difficulties in the consideration of any revenue legislation.

Required report on tax expenditures.—The Congressional Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the committee report accompanying legislation to provide new or increased tax expenditures include information as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years.

CHARTS AND DESCRIPTION

Chart 1

Report to Budget Committee

- Views and estimates of Finance Committee on:
  - Expenditures
  - Revenues
  - Tax expenditures
  - Public debt
- Relating both to existing law and proposals to change existing law

Chart 1

Report to Budget Committee

Under the Congressional Budget Act of 1974, the Committee on the Budget is required by April 15 of each year to report to the Senate a concurrent resolution on the budget which is, in effect, a proposed congressional budget document setting forth appropriate levels of Federal expenditure and revenue, surplus or deficit, and related matters. To assist the Budget Committee in making the judgments necessary to develop such a congressional budget the act also mandates that each committee send to the Budget Committee its views and estimates on those aspects of the budget which fall within its jurisdiction. This report is due by March 15 of each year. This year the Budget Committee has asked that the report be sent by March 1 to allow the Budget Committee to report out a budget resolution prior to April 15.

In the case of the Committee on Finance, the report to the Budget Committee must cover the expenditure programs under Finance Committee jurisdiction which are listed on chart 3, Federal revenues, tax expenditures, and the public debt. With respect to each of these matters, the committee is required to provide its views and estimates as to the levels anticipated under existing law or under any changes to existing law which the committee expects. The period to be covered by the report to the Budget Committee is fiscal year 1983 (October 1982 to September 1983). The Budget Committee has requested that committees also include their views on the 5-year budgetary outlook. The report sent to the Budget Committee last year is reprinted in Appendix A of this document.

Section 301(c) of the Congressional Budget Act which deals with the March 15 report to the Budget Committee is included in the excerpts from that act which appear at the end of this pamphlet as Appendix B.

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Chart 2.—ECONOMIC ASSUMPTIONS

[Dollars in billions]

	1982	1983	1984	1985	1986	1987
Gross national product:						
Current dollars	$3,058	$3,262	$3,566	$3,890	$4,232	$4,599
Constant (1972) dollars	$1,476	$1,496	$1,555	$1,617	$1,682	$1,749
Percent change in real GNP	—1.8	1.4	3.9	4.0	4.0	4.0
Personal income	$2,570	$2,727	$2,935	$3,142	$3,377	$3,661
Wages and salaries	$1,560	$1,640	$1,780	$1,921	$2,090	$2,281
Corporate profits	$175	$177	$206	$246	$296	$316
Percent change in CPI	6.0	4.9	4.6	4.9	4.6	4.5
Unemployment rate, annual average (percent)	9.5	10.7	9.9	8.9	8.1	7.3
Treasury bill rate (91-day) (percent)	10.7	8.0	7.9	7.4	6.8	6.5

Chart 2

Economic Assumptions

The March 15 report to the Budget Committee, due March 1, that is required by the Congressional Budget Act of 1974 represents the Finance Committee's views as to revenues, expenditures and other budgetary matters for the coming fiscal year both under existing law and under any anticipated changes. The level of these items, however, is affected not only by legislation but also by various economic factors concerning which there reasonably may be differences of opinion. These differences can reflect divergent viewpoints as to how the economy will operate and also divergent viewpoints as to the type of legislation that may be enacted and its effect on the operations of the economy. Different programs are particularly sensitive to different aspects of the economy. For example, expenditures under social security are sensitive to the Consumer Price Index since that program includes an automatic cost-of-living increase provision. The unemployment insurance program does not incorporate such a provision but is, of course, particularly sensitive to the amount of unemployment. Revenues, similarly, are strongly affected by the level of personal income and of corporate profits, and, in the case of payroll tax revenues, by wages and salaries. Personal income tax receipts also are affected by inflation, as rising nominal wages increase taxable income. (Under current law, after 1984, tax rates will be indexed which will lower the amount of additional revenue generated by rising prices and wages.) In addition, trends in interest rates and the rate of inflation affect the cost of interest on the public debt.

This chart presents a selection of the most significant economic indicators as taken from the President's budget.

Chart 3

Major Expenditure Programs Under Finance Committee Jurisdiction

- Social security cash benefits (see charts 4 and 5):
  - Old-age and survivors insurance (OASI)
  - Disability insurance (DI)
- Unemployment compensation (see chart 6)
- Welfare programs for families (see chart 7):
  - Aid to families with dependent children
  - Work incentive program
  - Child support enforcement
- Social services (see chart 8)
- Supplemental security income for the aged, blind, and disabled (see chart 9)
- Health programs (see charts 10–12):
  - Medicare
  - Medicaid
  - Maternal and child health
- Revenue sharing (see chart 13)
- Interest on the public debt (see chart 13)

Chart 3

Major Expenditure Programs Under Finance Committee Jurisdiction

This chart lists the major programs involving an expenditure of Federal funds which come within the legislative jurisdiction of the Committee on Finance. Each of these programs is covered in more detail in the following charts. Interest on the public debt is included as an expenditure program since it does constitute a significant part of the Federal expenditures budget even though the level of expenditure in this category is not subject to legislative control by the committee in the same sense as expenditures under the other programs listed.

Under a revision in the Congressional budget procedures adopted in the 95th Congress, refundable tax credits are now treated as revenue items insofar as they serve to reduce tax liability and as "outlay" items insofar as they exceed tax liability. Because such provisions are in fact considered by the committee and the Congress in the context of revenue legislation, however, they are discussed in this document at the same point as other revenue items. The refundable tax credit having significant budgetary impact in fiscal 1984 is the earned income tax credit.

Chart 4.—SOCIAL SECURITY CASH BENEFIT TRUST FUNDS (OASDI)

[In billions of dollars]

	Fiscal year—					
	1983	1984	1985	1986	1987	1988
Present Law:[1]						
Income[2]	163.6	162.0	180.0	197.4	213.2	232.3
Outgo	171.3	183.1	197.2	212.3	228.1	244.6
Increase or decrease in trust funds	−7.7	−21.1	−17.2	−14.9	−14.8	−12.2
End of year balance in trust funds	11.6	−9.5	−26.7	−41.6	−56.4	−68.6

[1] These are projections under present law based on the economic assumptions in President Reagan's FY 1984 Budget. They do not reflect the impact of proposed social security legislation. The FY 1983 income figure reflects the interfund transfers made to the OASI trust fund (authorized under P.L. 97–123) of $17.5 billion from the DI and HI trust funds ($5.1 billion from DI, $12.4 billion from HI).

[2] Income to the trust funds is treated as "budget authority" under the accounting system used in the budget process.

Source: SSA, Office of the Actuary, February 7, 1983.

Chart 4

Social Security Cash Benefit Trust Funds—Financial Status for Fiscal Years 1984-87

The social security payroll tax supports the basic social security cash benefit programs for individuals who work in employment covered by that tax and their families. The old-age and survivors insurance (OASI) program provides retirement benefits for insured workers at age 62 and the disability insurance (DI) program provides benefits for insured workers of any age who are unable to engage in substantial work activity. Benefits also are provided to the surviving spouse and children of deceased workers and to the dependent spouse and children of disabled or retired workers.

In fiscal year 1984, 21.6 million people age 62 or over, and 3.6 million of their dependents, will be eligible for social security retirement benefits. About 7.3 million people will receive benefits because they are survivors of deceased workers, and 4.0 million more people will receive benefits because they are disabled workers or dependents of disabled workers. In total, approximately 37 million people will be receiving some type of social security cash benefits.

Numerous changes in the OASDI program were made during the 97th Congress in the Omnibus Reconciliation Act of 1981, the Social Security Amendments of 1981, the Tax Equity and Fiscal Responsibility Act of 1982 and the Disability Amendments of 1982. As a result of these actions, savings were achieved, some additional income was provided, and interfund borrowing was authorized on a temporary basis. Despite this legislation, the social security system faces significant financial problems. Weak economic growth has constrained payroll tax collections while inflation has resulted in relatively large increases in indexed benefits. Trust fund assets relative to outgo have been seriously eroded as aggregate outgo has exceeded income in the last 8 years.

Under the President's and CBO's fiscal year 1984 budget assumptions, the OASI reserves, including the supplements permitted under the interfund borrowing authority, are insufficient to finance full benefits beyond June 1983. If Congress reauthorizes interfund borrowing, reserves of OASI and the other trust funds, together, are projected to fall below the potential danger level of 13 percent of 1 year's outgo sometime late in 1983 under CBO assumptions and under Administration budget assumptions. Reserves show further deterioration during the balance of the 5-year budgeting period.

Social Security actuaries consider a reserve ratio of 13 percent at the start of a calendar year the critical point because even a small error in the estimates or unforeseen fluctuations in the flow of income and outgo may cause reserves to fall below 1 month's benefits at some point during the year. The actuaries point out that a

minimum 4 to 5 percentage-point spread between the potential danger level (13 percent) and the actual level of insolvency (9 percent) is needed to avoid cash-flow problems. On a fiscal year basis, the comparable reserve ratios are 3 to 4 points higher, with insolvency occurring at the 12 to 13 percent level.

ASSETS OF THE COMBINED OASDI AND OASDHI TRUST FUNDS AT THE BEGINNING OF THE YEAR AS A PERCENT OF OUTGO DURING THE YEAR—PRESENT LAW

[In percent]

	Calendar year—					
	1983	1984	1985	1986	1987	1988
Old Age, Survivors, and Disability Insurance (OASDI):						
Administration	14	2	−10	−17	−22	−27
CBO	14	3	−8	−12	−16	−18
Old Age, Survivors, Disability, and Hospital Insurance (OASDHI):						
Administration	15	5	−6	−12	−18	−23
CBO	15	6	−3	−7	−11	−16
	Fiscal year—					
	1983	1984	1985	1986	1987	1988
Old Age, Survivors, and Disability Insurance (OASDI):						
Administration	11	6	−5	−13	−18	−23
CBO	11	7	−3	−9	−12	−15
Old Age, Survivors, Disability and Hospital Insurance (OASDHI):						
Administration	19	9	0	−8	−13	−19
CBO	19	10	1	−4	−8	−12

Source: Office of the Actuary/SSA; Office of the Actuary/HCFA; and CBO.

The following table displays the economic assumptions behind the President's fiscal year 1984 budget estimates as compared to CBO's most recent economic forecasts. These assumptions primarily differ from last year's assumptions in projecting higher real wage growth and unemployment and a lower rate of inflation. The first two factors more than offset the savings to the system from the lower rate of inflation and result in more serious funding problems for the system than were projected a year ago.

ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS RELATED TO OASDI PROGRAM

[In percent]

Calendar year	CPI increase		COLA increase		Real wage differential		Unemployment rate	
	Administration [1]	CBO [2]	Administration [1]	CBO [2]	Administration [1]	CBO [2]	Administration [1]	CBO [2]
1983	4.9	3.8	5.1	4.1	−0.5	1.0	10.9	10.6
1984	4.6	4.6	4.8	4.6	1.5	1.1	10.0	9.8
1985	4.6	4.4	4.5	4.5	.7	1.1	9.0	9.0
1986	4.6	4.1	4.7	4.2	2.0	1.5	8.2	8.4
1987	4.5	3.9	4.5	4.0	2.3	1.6	7.4	8.0
1988	4.4	3.7	4.5	3.8	2.3	2.0	6.6	7.5

[1] Economic assumptions underlying the FY 1984 President's Budget.
[2] CBO's February 1983 economic assumptions.

Source: Congressional Budget Office and the Office of the Actuary/SSA.

ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS BASED UPON THE PRESIDENT'S FY 1984 BUDGET ASSUMPTIONS—PRESENT LAW

[In billions of dollars]

	Fiscal year—					
	1983	1984	1985	1986	1987	1988
	Old age and survivors insurance (OASDI)					
Total outlays	153.2	164.7	178.3	192.6	207.3	222.5
Income	144.9	135.6	147.8	160.3	171.8	186.1
Year-end balance	4.3	−24.8	−55.2	−87.6	−123.0	−159.5
Start of year balance, as percent of outlays	8	3	−14	−29	−42	−55
	Disability insurance (DI)					
Total outlays	18.1	18.1	18.9	19.8	20.8	22.0
Income	18.7	26.4	32.2	37.2	41.4	46.3
Year-end balance	7.3	15.3	28.6	46.0	66.6	90.8
Start of year balance, as percent of outlays	37	40	81	145	221	302
	Combined OASI and DI					
Total outlays	171.3	183.1	197.2	212.3	228.1	244.6
Income	163.6	162.0	180.0	197.4	213.2	232.3
Year-end balance	11.6	−9.5	−26.7	−41.6	−56.4	−68.6
Start of year balance, as percent of outlays	11	6	−5	−13	−18	−23
	Hospital insurance (HI)					
Total outlays	39.2	45.1	51.8	58.4	67.5	76.8
Income	28.3	44.1	48.4	55.1	60.2	64.9
Year-end balance	9.7	8.7	5.2	2.0	−5.3	−17.2
Start of year balance, as percent of outlays	53	21	17	9	3	−7
	Combined OASI, DI, and HI					
Total outlays	210.5	228.2	249.0	270.7	295.6	321.4
Income	191.9	206.1	228.4	252.5	273.4	297.2
Year-end balance	21.5	−0.6	−21.2	−39.4	−61.6	−85.8
Start of year balance, as percent of outlays	19	9	0	−8	−13	−19

Notes: 1. The income figures for 1983, and the end-of-year asset figures for 1983 and later, reflect the transfer of funds from the DI and HI Trust Funds under the interfund borrowing authority provided by Public Law 97–123. By the end of December 1982, when this authority expired, a total of $17.5 billion had been transferred to OASI, $5.1 billion from DI and $12.4 billion from HI.

2. The estimated operations of OASI, and OASI and DI combined, in 1983 and later are theoretical since the OASI Trust Fund would be depleted in July 1983 when assets would become insufficient to pay benefits when due.

3. HI income includes an interest repayment for the interfund loan of $12.4 billion to OASI. If these payments are not made, the fund at the end of the year would be $9.0 billion, $6.6 billion, and −$1.9 billion in fiscal years 1983, 1984 and 1985 respectively.

Source: Office of the Actuary, SSA (2/7/83) and Office of the Actuary, HCFA (2/25/83).

ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS BASED UPON THE PRESIDENT'S FY 1984 BUDGET ASSUMPTIONS—PRESENT LAW

[In billions of dollars]

	Calendar year—					
	1983	1984	1985	1986	1987	1988
	Old age and survivors insurance (OASI)					
Total outlays	155.4	168.0	181.7	196.3	211.0	226.5
Income	127.4	136.6	150.5	162.0	174.5	188.3
Year-end balance	−5.8	−37.3	−68.5	−102.7	−139.2	−177.4
Start of year balance, as percent of outlays	14	−3	−21	−35	−49	−61
	Disability insurance (DI)					
Total outlays	18.1	18.5	19.1	20.0	21.1	22.4
Income	24.3	27.2	34.2	38.5	42.9	47.7
Year-end balance	8.9	17.6	32.7	51.1	73.0	98.3
Start of year balance, as percent of outlays	15	48	92	163	242	326
	Combined OASI and DI					
Total outlays	173.5	186.5	200.8	216.3	232.1	248.8
Income	151.8	163.7	184.7	200.5	217.4	236.0
Year-end balance	3.0	−19.7	−35.8	−51.6	−66.3	−79.1
Start of year balance, as percent of outlays	14	2	−10	−17	−22	−27
	Hospital insurance (HI)					
Total outlays	41.4	46.7	52.8	60.6	69.8	79.3
Income	40.8	44.8	49.5	57.0	61.4	65.9
Year-end balance	7.7	5.9	2.7	−1.0	−9.0	−22.7
Start of year balance, as percent of outlays	20	16	11	4	−1	−12
	Combined OASI, DI, and HI					
Total outlays	214.9	233.2	253.6	276.9	301.9	328.1
Income	192.6	208.5	234.2	257.5	278.8	301.9
Year-end balance	10.8	−13.9	−33.3	−52.7	−75.8	−102.0
Start of year balance, as percent of outlays	15	5	−6	−12	−18	−23

Notes: 1. The income figures for 1983, and the end-of-year asset figures reflect the transfer of funds from the DI and HI Trust Funds in FY 1983 under the interfund borrowing authority provided by Public Law 97–123. By the end of December 1982, when this authority expired, a total of $17.5 billion had been transferred to OASI, $5.1 billion from DI and $12.4 billion from HI.

2. The estimated operations of OASI, and OASI and DI combined, in 1983 and later are theoretical since the OASI Trust Fund would be depleted in July 1983 when assets would become insufficient to pay benefits when due.

3. HI income includes an interest repayment for the interfund loan of $12.4 billion to OASI. If these payments are not made, the fund at the end of the year would be $6.4 billion, $3.2 billion, and −$1.4 billion in calendar years 1983, 1984, and 1985 respectively.

Source: Office of the Actuary, SSA (2/7/83), and Office of the Actuary, HCFA (2/25/83).

ESTIMATED OPERATIONS OF THE OASI, DI AND HI TRUST FUNDS BASED ON CBO ECONOMIC ASSUMPTIONS—PRESENT LAW

[In billions of dollars]

	Fiscal year—					
	1983	1984	1985	1986	1987	1988
	Old age and survivors insurance (OASI)					
Total outlays	153.1	164.6	176.6	189.2	201.9	216.2
Income[1]	146.5	138.2	150.7	162.5	172.5	184.9
Year-end balance	5.9	−20.5	−46.3	−73.1	−102.6	−133.9
Start of year balance, as percent of outlays	8.2	3.6	−11.6	−24.5	−36.2	−47.4
	Disability insurance (DI)					
Total outlays	18.5	19.0	19.1	19.3	19.9	20.6
Income[1]	19.0	26.8	32.7	37.4	41.0	45.0
Year-end balance	7.3	15.1	28.7	46.9	67.9	92.3
Start of year balance, as percent of outlays	36.6	38.5	79.1	148.9	235.1	330.4
	Combined OASI and DI					
Total outlays	171.6	183.6	195.7	208.5	221.8	236.8
Income[1]	165.5	165.0	183.4	199.9	213.4	229.9
Year-end balance	13.3	−5.4	−17.6	−26.3	−34.7	−41.6
Start of year balance, as percent of outlays	11.2	7.2	−2.7	−8.5	−11.8	−14.7
	Hospital insurance (HI)					
Total outlays	39.2	44.9	50.6	57.5	66.5	74.8
Income[1]	27.9	44.2	48.4	54.8	58.9	62.5
Year-end balance	9.5	8.8	6.5	3.8	−3.9	−16.3
Start of year balance, as percent of outlays	53.1	21.1	17.3	11.3	5.7	−5.2
	Combined OASI, DI, AND HI					
Total outlays	210.8	228.5	246.3	266.0	288.4	311.6
Income[1]	193.4	209.2	231.8	254.7	272.3	292.3
Year-end balance	22.7	3.4	−11.1	−22.5	−38.6	−57.9
Start of year balance, as percent of outlays	19.0	10.0	1.4	−4.2	−7.8	−12.4

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances and certain general fund transfers. Income in fiscal year 1983 reflects actual interfund transfers as authorized under Public Law 97–123. In order to better illustrate the operations of the trust funds under extended interfund or other types of borrowing or under tax rate reallocation, estimated interest payments owed by a trust fund when it shows a deficit are included as negative values in the income estimates of that trust fund.

Note: Minus sign denotes a deficit. Columns might not add due to rounding.

Source: Congressional Budget Office (CBO), 2/23/83.

ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS BASED ON CBO ECONOMIC ASSUMPTIONS—PRESENT LAW

[In billions of dollars]

	Calendar year—					
	1983	1984	1985	1986	1987	1988
	Old age and survivors insurance (OASI)					
Total Outlays	156.0	167.7	179.7	192.3	205.3	220.0
Income[1]	130.5	139.4	153.6	164.2	174.8	186.6
Year-end balance	−3.4	−31.6	−57.7	−85.8	−116.3	−149.7
Start of year balance, as percent of outlays	14.2	−2.0	−17.6	−30.0	−41.8	−52.9
	Disability insurance (DI)					
Total Outlays	18.7	19.1	19.0	19.2	19.9	20.7
Income[1]	24.5	27.4	34.4	38.3	42.0	46.0
Year-end balance	8.5	16.7	32.1	51.2	73.3	98.6
Start of year balance, as percent of outlays	14.4	44.5	87.9	167.0	256.8	354.3
	Combined OASI and DI					
Total Outlays	174.7	186.8	198.7	211.5	225.3	240.7
Income[1]	155.1	166.8	188.0	202.5	216.8	232.6
Year-end balance	5.1	−14.9	−25.6	−34.6	−43.0	−51.1
Start of year balance, as percent of outlays	14.2	2.7	−7.5	−12.1	−15.3	−17.9
	Hospital insurance (HI)					
Total Outlays	41.1	46.2	51.0	60.0	68.5	77.0
Income[1]	41.6	44.8	49.5	56.3	59.7	63.1
Year-end balance	8.8	7.5	5.9	2.2	−6.5	−20.4
Start of year balance, as percent of outlays	20.3	19.1	14.6	9.9	3.2	−8.5
	Combined OASI, DI, and HI					
Total Outlays	215.9	233.0	249.7	271.6	293.7	317.6
Income[1]	196.7	211.6	237.5	258.9	276.5	295.7
Year-end balance	14.0	−7.4	−19.6	−32.4	−49.6	−71.5
Start of year balance, as percent of outlays	15.3	6.0	−3.0	−7.2	−11.0	−15.6

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances and certain general fund transfers. Income in fiscal year 1983 reflects actual interfund transfers as authorized under Public Law 97–123. In order to better illustrate the operations of the trust funds under extended interfund or other types of borrowing or under tax rate reallocation, estimated interest payments owed by a trust fund when it shows a deficit are included as negative values in the income estimates of that trust fund.

Note: Minus sign denotes a deficit. Columns might not add due to rounding.

Source: Congressional Budget Office (CBO), 2/23/83.

Currently scheduled tax rates and estimated tax base.—The trust fund status shown in the preceding tables includes the impact of additional income which will result from social security tax increases already scheduled under present law. The tables which follow show the tax rates and taxable earnings bases which will go into effect under present law.

TAX RATES FOR THE SOCIAL SECURITY TRUST FUNDS, 1980 AND AFTER

[In percent]

Calendar years	OASI [1]	DI [2]	OASDI	HI [3]	Total (OASDHI)
EMPLOYERS AND EMPLOYEES, EACH					
1980	4.520	0.560	5.08	1.05	6.13
1981	4.700	0.650	5.35	1.30	6.65
1982–84	4.575	0.825	5.40	1.30	6.70
1985	4.750	0.950	5.70	1.35	7.05
1986–89	4.750	0.950	5.70	1.45	7.15
1990 and later	5.100	1.100	6.20	1.45	7.65
SELF-EMPLOYED PERSONS					
1980	6.2725	0.7775	7.05	1.05	8.10
1981	7.0250	0.9750	8.00	1.30	9.30
1982–84	6.8125	1.2375	8.05	1.30	9.35
1985	7.1250	1.4250	8.55	1.35	9.90
1986–89	7.1250	1.4250	8.55	1.45	10.00
1990 and later	7.6500	1.6500	9.30	1.45	10.75

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

ANNUAL EARNINGS SUBJECT TO THE SOCIAL SECURITY TAX (TAXABLE EARNINGS BASE)

Calendar year	Administration	CBO
1980	$25,900	$25,900
1981	29,700	29,700
1982	32,400	32,400
1983	35,700	35,700
1984 [1]	37,800	37,800
1985 [1]	39,600	39,600
1986 [1]	42,000	42,000
1987 [1]	44,100	44,400
1988 [1]	47,100	46,800

[1] Estimates.

Source: SSA and CBO.

Chart 5.—SOCIAL SECURITY CASH BENEFIT PROGRAMS (OASDI) SUMMARY OF PROPOSED LEGISLATION

[In billion of dollars]

	Fiscal year—					
	1983	1984	1985	1986	1987	1988
National Commission Proposals: [1]						
Budget effect:						
Receipts		+8.2	+5.5	+8.4	+9.8	+21.2
Outlays	−2.1	−4.0	−4.4	−4.7	−5.1	−5.4
Trust fund effect:						
Income	+20.5	+9.9	+15.0	+15.7	+19.4	+34.8
Outgo	−2.1	−4.1	−4.5	−4.7	−5.2	−5.5
Other budget proposals:						
Budget effect:						
Receipts		+0.5	+1.2	+1.7	+2.4	+3.0
Outlays		−0.1	−0.1	−0.1	−0.1	−0.1
Trust fund effect:						
Income		+0.5	+1.2	+1.7	+2.4	+3.0
Outgo		−0.1	−0.1	−0.1	−0.1	−0.1
Total budget effect:						
Receipts		+8.7	+6.7	+10.1	+12.2	+24.2

Outlays	−2.1	−4.1	−4.5	−4.8	−5.2	−5.5
Total trust fund effect:						
Income	+20.5	+10.4	+16.2	+17.4	+21.8	+37.8
Outgo	−2.1	−4.1	−4.5	−4.8	−5.2	−5.5

[1] The recommendation to increase the SSI income disregard is described and accounted for in the SSI section of this print.

Source: Office of Management and Budget, Office of the Assistant Secretary for Management and Budget/HHS.

Chart 5

Social Security Cash Benefits Programs (OASDI): Proposed Legislation

The President's budget for fiscal year 1984 assumes the enactment of the recommendations of the National Commission on Social Security Reform (NCSSR), which address the financial problems confronting the social security cash benefits programs. These recommendations are estimated by the Administration (under budget assumptions) to increase OASDI trust fund assets by almost $14 billion in fiscal year 1984. The resulting reduction in the unified budget deficit from these recommendations is estimated to be $12.2 billion in the same year. Over the 5-year budget period, the President's budget assumes a reduction in the unified budget deficit of $76.6 billion from these recommendations.

In addition to the NCSSR recommendations, the President's budget contains savings to the trust funds from legislative proposals which, to date, remain unspecified. In fiscal year 1984 these additional proposals are estimated by the Administration to increase budget authority by $494 million and to decrease outlays by $62 million. Over the 5-year budget period, these additional proposals would increase budget authority by $8.8 billion and decrease outlays by $0.4 billion.

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SOCIAL SECURITY CASH BENEFIT PROGRAMS (OASDI)—UNIFIED BUDGET IMPACT OF PROPOSED LEGISLATION: NATIONAL COMMISSION PROPOSALS [1]

[In billions of dollars]

	Fiscal year—					
	1983	1984	1985	1986	1987	1988
Proposals affecting income:						
FICA tax acceleration		5.5	−1.9			9.4
SECA tax increase		0.6	1.7	1.5	1.6	2.0
Cover all non-profit employees		0.9	1.5	1.7	2.1	2.5
Prohibit termination of coverage		0.1	0.3	0.4	0.7	0.9
Taxation of benefits		1.1	4.0	4.7	5.5	6.4
Total unified budget income		8.2	5.5	8.4	9.8	21.2
Proposals affecting outlays:						
COLA delay	−2.1	−4.2	−4.7	−4.5	−5.4	−5.7
Equity provisions		0.2	0.2	0.2	0.3	0.3
Total unified budget outlays	−2.1	−4.1	−4.4	−4.7	−5.1	−5.4
Reduction in unified budget deficit	2.1	12.2	9.9	13.0	14.9	26.6

[1] Does not include National Commission proposal to increase SSI income disregard. Also, does not include additional income due to proposal to tax employee health benefits.

Note: Totals may not add due to rounding.

Source: Office of Management and Budget and Office of the Assistant Secretary for Management and Budget/HHS.

SOCIAL SECURITY CASH BENEFIT PROGRAMS (OASDI)—TRUST FUND IMPACT OF PROPOSED LEGISLATION: NATIONAL COMMISSION PROPOSALS

[In billions of dollars]

	Fiscal Year—					
	1983	1984	1985	1986	1987	1988
Proposals affecting OASDI income:						
FICA tax acceleration		6.4	2.4			10.8
SECA tax increase		1.0	3.0	3.0	3.2	3.6
Cover new Federal employees		0.1	0.6	1.2	1.7	2.4
Cover all non-profit employees		0.9	1.4	1.6	1.9	2.3
Prohibit termination of coverage		0.1	0.2	0.4	0.5	0.8
Taxation of benefits		1.1	4.0	4.7	5.5	6.4

SOCIAL SECURITY CASH BENEFIT PROGRAMS (OASDI)—TRUST FUND IMPACT OF PROPOSED LEGISLATION NATIONAL COMMISSION PROPOSALS—Continued

[In billions of dollars]

	Fiscal Year—					
	1983	1984	1985	1986	1987	1988
Credit Trust Funds for military wage credits and unnegotiated checks	19.9	−0.4	−0.4	−0.4	−0.3	−0.2
Subtotal	19.9	9.2	11.2	10.5	12.6	26.0
Additional interst income from proposals	0.6	0.7	3.9	5.3	6.9	8.9
Total increase in OASDI income	20.5	9.9	15.0	15.7	19.4	34.8
Proposals affecting OASDI outgo:						
Six-month COLA delay	−2.1	−4.2	−4.6	−4.9	−5.4	−5.7
Eliminate windfall benefits		(1)	(1)	(1)	(1)	−0.1
Equity proposals		0.1	0.2	0.2	0.2	0.3
Total reduction in OASDi outgo	−2.1	−4.1	−4.5	−4.7	−5.2	−5.5
Total impact on trust funds	+22.6	+14.0	+19.5	+20.4	+24.6	+40.3

[1] Less than $50 million.

Note: Totals may not add due to rounding.

Source: Office of Management and Budget and Office of the Assistant Secretary for Management and Budget/HHS.

A. NATIONAL COMMISSION RECOMMENDATIONS

1. Coverage of employees of nonprofit organizations and newly hired federal employees

Approximately 91 percent of the Nation's workers are covered by social security. The major groups not now covered are Federal civilian employees (2.7 million), State and local government employees (3.9 million), and private, nonprofit organization employees (about 1 million).

Beginning January 1, 1984, this proposal would extend mandatory coverage to all nonprofit employees and to all new Federal employees.

2. Prohibit termination of coverage by State and local governments

Employees of the States and their political subdivisions are covered only through agreements between the Secretary of Health and Human Services and the States. About 74 percent of State and local employees are covered under social security.

Coverage may be terminated if the State gives 2 years' written notice of such intent. Once coverage is terminated, the group can never again be covered under social security.

Effective January 1, 1984, this proposal would no longer permit State and local governments which have elected social security coverage for their employees to terminate such coverage. Pending termination notices would be invalid.

3. Shift of cost-of-living adjustment to a calendar year basis

The proposal would delay the automatic cost-of-living adjustment (COLA) of social security benefits from June to December. The amount of the increase, payable in January, would be determined this year on the basis of the percentage by which the Consumer Price Index (for Urban Wage Earners and Clerical Workers, CPI-W) for the first quarter of the calendar year has increased over the CPI for the first quarter of the previous calendar year. Beginning in 1984, the COLA would be computed on a third quarter to third quarter comparison in order to retain the same lag period as under present law.

In addition, the amount of social security benefits that can be disregarded in determining SSI payments and eligibility would be increased from $20 to $50 monthly. (This would not be a generalized increase in the income disregard.) This provision is discussed in the SSI section of this print.

4. Elimination of "windfall" benefits for individuals receiving pensions from noncovered employment

Under the proposal, retired and disabled workers who become eligible for a pension based on non-covered employment after 1983 would have their social security benefit reduced (but not eliminated). Two reduction methods were proposed by the Commission: (1) the heavily weighted 90-percent factor in the benefit formula would be replaced by a factor of 32 percent. In no case would total benefits be less than the present law social security benefit plus 50 percent of the worker's pension based on non-covered employment. (2) Another method would apply the present benefit formula to an earnings record which combines both covered and noncovered earnings to determine a replacement rate which would apply to the average earnings based solely on covered employment.

5. Benefits for divorced or disabled widow or widower who remarries

Present Law: Widow(er)s benefits are payable at age 60 to spouses who had been married for nine months before the death of the wage earner, and do not remarry before age 60 (unless the subsequent marriage ended in death, divorce or annulment). If the widow(er) marries after age 60, he or she receives the largest benefit to which he or she is entitled as a wage earner, widow(er) or spouse. Certain other beneficiary groups lose entitlement to benefits upon remarriages. These are:

a. Disabled Widow(er)s benefits are payable from age 50 to 60 to disabled spouses who had been married to the wage earner for nine months before the time of death, and are not married.

b. Surviving Divorced Spouses benefits are payable at age 60 to spouses who: (1) were divorced from the wage earner at the time of death, (2) had been married to the wage earner for 10 years before divorce, and (3) are not married.

c. Disabled Surviving Divorced Spouses benefits are payable from age 50 to 60 to divorced spouses who: (1) were divorced from the wage earner at the time of death, (2) had been married to the wage earner for 10 years before divorce, and (3) are not married.

Proposed Change: As is the case for widows and widowers, this proposal would allow benefits to continue to be paid to certain beneficiaries upon remarriage if that marriage takes place after the age of first eligibility for benefits. No change would be made in the current dual entitlement provision of the law which allows only the highest benefit to which an individual is eligible to be drawn.

Disabled Widow(er)s benefits would be payable to those who remarry after age 50.

Surviving Divorced Spouses benefits would be payable to those who remarry after age 60.

Disabled surviving divorced spouses benefits would be payable to those who remarry after age 50.

6. Change in indexing for deferred survivor benefits

Survivor benefits are based on the amount of benefits that would have been payable to the deceased worker as determined by applying a benefit formula to the worker's earnings in covered employment. Such earnings are indexed to reflect economy-wide wage increases through the second year before the death of the worker. Beginning with the year of death, benefit levels are indexed to price changes.

Should the worker die long before retirement age, the benefit to which the widowed spouse ultimately becomes eligible in old-age (or at disability) is based on outdated wages. Thus, women who become widowed at a relatively young age, but do not become eligible for benefits for many years, are deprived of their husband's unrealized earnings as well as the economy-wide wage increases that may have occurred since the death of their husbands.

In the case of deferred survivor benefits, this proposal would continue indexing the worker's earnings to reflect economy-wide wage increases rather than price increases.

7. Benefits for divorced spouses regardless of whether former spouse has retired

A divorced spouse, eligible for benefits at age 62, may not begin to draw social security benefits until the worker begins to draw benefits. For some divorced women, this means that they must wait several years beyond their own retirement age (either because their ex-spouse delays retirement or otherwise fails to apply for benefits) before they can begin to draw benefits.

This proposal would make benefits payable at age 62 to divorced spouses (who have been divorced for a specified period of time) if the former spouse is eligible for retirement benefits, whether or not they have been claimed or suspended because of substantial employment.

8. Increase in benefit amount for disabled widows and widowers

Social security benefits for widows and widowers are first payable at age 60. Benefits are payable in full (i.e., 100 percent of the

worker's primary insurance amount) at age 65, and at reduced rates at ages 60-64 (i.e., phasing up from 71.5 percent of the primary insurance amount at age 60). Benefits are also payable at reduced rates to disabled widows and widowers aged 50-59 (i.e., phasing up from 50 percent of the primary insurance amount at age 50).

This proposal would increase disabled widow(er)s benefits to 71.5 percent of the primary insurance amount, the amount to which widow(er)s are entitled at age 60.

9. Taxation of Social Security benefits for higher income persons

Under a series of rulings in 1938 and 1941 by the Internal Revenue Service, social security benefits are excluded from gross income for purposes of the income tax. Railroad retirement benefits are excluded under provisions of the Railroad Retirement Act.

Under the proposal one-half of an individual's social security benefits would be included in adjusted gross income if other adjusted gross income exceeded the base amount. The base amount would be $25,000 in the case of a joint return, and $20,000 in the case of a single taxpayer or a married taxpayer filing a separate return.

10. Acceleration of increase in FICA taxes; 1984 employee FICA tax credit

The Federal Insurance Contributions Act (FICA) imposes two taxes—old-age, survivor and disability insurance (OASDI), and hospital insurance (HI), on employees and employers. These social security taxes are paid at the same rate by both the employer and employee on wages earned in employment covered by social security, up to the maximum amount creditable for the year.

This proposal would: (1) move the 1985 OASDI tax rate of 5.7 percent for employers and employees to 1984; (2) keep the current law rate of 5.7 percent for 1985-87; (3) reschedule the 1988-89 rate to 6.06 percent, and (4) make no change in the tax rate for 1990 and thereafter. In addition, for wages received during calendar year 1984, employees would be eligible for a refundable tax credit in an amount equal to the increase in the employee rate caused by accelerating the 1985 tax rate into 1984.

11. Increase self-employment taxes; deduction for 50 percent of self-employment tax

The Self-Employment Contributions Act imposes two taxes (OASDI and HI) on self-employed individuals. The OASDI tax rate on the self-employed is approximately equal to 1.5 times the employee rate. It is scheduled to rise from 8.05 percent in 1983 to 8.55 percent in 1985, and 9.3 percent in 1990 and thereafter. Under present law, self-employed persons cannot deduct from Federal income taxes, as a business expense, any OASDI taxes paid.

This proposal would make the self-employed OASDI tax rate equal to the combined employer-employee rate, beginning in 1984. Also beginning in 1984, self-employed individuals would be allowed to deduct for income tax purposes 50 percent of self-employment OASDI taxes paid. This deduction would be allowed in computing adjusted gross income.

The HI tax rate schedule for the self-employed now in the law would not be altered.

B. OTHER NATIONAL COMMISSION RECOMMENDATIONS

Other national commission recommendations are included in the President's budget although they have no immediate budget impact. These would include:

12. Adjustment of cost-of-living increase when trust fund ratio falls below 20 percent

To help stabilize social security outgo relative to income, this proposal would trigger the indexing of benefits to the lower of the increases in wages or prices whenever trust fund reserves are critically low. When reserves accumulate again, provision would be made for (1) repayment of amounts foregone in earlier years and (2) reinstatement of full ongoing benefit levels based on full CPI increases. The triggering of this modified cost of living adjustment and the payback would be based on the OASDI trust fund ratio (the OASI and DI trust fund balances in the funds, exclusive of any outstanding loans from the HI trust fund, as a percentage of the estimated outgo from the funds in the next year). The provision would trigger when the OASDI reserve ratio fell below 20 percent; repayment would trigger when the reserve ratio reached 32 percent.

This change would not apply to the SSI program, which is financed out of Federal general revenues.

13. Increase in old-age insurance benefit amounts on account of delayed retirement

A worker who delays retirement beyond age 65 is eligible for a delayed retirement credit (DRC). The worker's benefit is increased for each month after age 65 and prior to age 70 for which benefits are not paid, either because of earnings or because the worker does not claim benefits. For workers eligible for benefits after 1978, the delayed retirement credit is equal to 3 percent per year (one-quarter of 1 percent per month). For workers eligible before 1979, the credit is equal to 1 percent per year (one-twelfth of 1 percent per month).

This proposal would gradually increase, between 1990 and 2010, the delayed retirement credit to 8 percent per year.

C. ADDITIONAL BUDGET PROPOSALS AFFECTING TRUST FUNDS

The Administration budget also proposes taxing employee health benefits, which will increase OASDI income by $464 million in fiscal year 1984, and $896 million in fiscal year 1985.

14. Allocations to disability insurance trust fund

In order to achieve approximately the same trust fund ratios (the balance in a trust fund at the beginning of a year as a percentage of the projected outgo for that year) in both the OASDI and HI trust funds, this proposal would reallocate the OASDI tax rates.

15. Interfund borrowing extension

The proposal would reinstate through 1987 the authority to borrow between the OASI and DI trust funds and from the HI trust fund whenever it was determined by the Managing Trustee (the Secretary of the Treasury) that additional funds are needed to pay benefits.

16. Crediting amounts of unnegotiated checks to the trust funds

When payments are made to social security beneficiaries, a voucher is submitted by the Social Security Administration to the Treasury Department for the amount of benefits. This amount is then withdrawn from the social security trust funds and the payments are sent to the beneficiaries. For any number of reasons, some benefit checks are not cashed. Under present procedure, the money has technically been spent by the social security trust funds. The General Fund of the Treasury holds these funds until the check is cashed.

The proposal would reimburse from the General Fund of the Treasury to the OASDI trust funds a lump sum payment equal to the amount of uncashed OASDI checks which were issued prior to the enactment of this provision, which remain unnegotiated twelve months after their date of issuance.

17. Military wage credits

Since 1946, the OASDI system has provided noncontributory wage credits to persons who served in the military forces. Such military personnel have been credited with earnings on which no payroll taxes have been paid. The trust funds are reimbursed annually from the general funds for the added cost of benefits resulting from this procedure.

Rather than continuing the current law method of annual reimbursement to the trust funds for these credits, the proposal would credit the OASDI trust funds in a lump sum, with an amount equal to (1) the estimated additional cost of providing future benefits based on pre-1957 military wage credits and (2) the taxes that would have been collected and the interest that would have been earned if the credits for service after 1956 and before 1983 had been taxed as they were earned. In the future, an annual appropriation to the trust funds would be made for the employee-employer taxes on non-contributory wage credits.

Chart 6.—UNEMPLOYMENT COMPENSATION

[In billions of dollars]

	Fiscal year—	
	1983	1984
Present law:		
Payroll tax elements:		
Federal/State tax and interest income	19.3	23.4
Federal taxes (net of credit reductions)	3.8	4.3
State taxes	14.9	18.7
Interest	0.6	0.4
Administrative costs	2.7	2.7
Tax-financed benefits	29.6	26.2
Deficit	−12.4	−5.3
General fund elements:		
Advances to the trust fund	[1] 9.1	[2] 6.4
Federal employee benefits	0.4	0.4
Trade adjustment assistance	0.1	.....
Federal supplemental compensation	2.5	.....
Other	([3])	([3])
Proposed legislation:		
Extend Federal supplemental compensation	[4] +1.9	.....

[1] Excludes $2.5 billion in nonrepayable advances for Federal supplemental compensation.

[2] Excludes $0.5 billion in nonrepayable advances to the Employment Security Administration Account.

[3] Less than $50 million.

[4] The Administration has proposed an extension of the FSC program beyond that (September 30, 1983) contained in the fiscal year 1984 Budget. The new proposal would extend FSC to December 31, 1983 at an additional cost of $1.1 billion

Chart 6

Unemployment Compensation

The unemployment compensation system was enacted as a part of the Social Security Act of 1935 to provide partial wage replacement to covered workers during periods of temporary and involuntary unemployment. The program is a joint Federal-State system composed of programs administered by the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands.

The major provisions of the unemployment compensation program are determined by State laws. In general, State laws establish eligibility requirements, the number of weeks an individual may collect unemployment compensation, the amount of the weekly benefit, the circumstances under which benefits may be denied, the length of denial, and the State unemployment tax structure.

The unemployment compensation system is financed by State and Federal payroll taxes on employers. Under the Federal Unemployment Tax Act (FUTA), a payroll tax of 3.5 percent on the first $7,000 of wages is levied on employers. If the State's unemployment compensation program meets the requirements of Federal law, employers in that State receive a 2.7 percent credit against the 3.5 percent Federal unemployment tax. Thus, the Federal tax rate in a State which has an approved program is 0.8 percent. The tax may be higher in States having outstanding unemployment insurance loans from the Federal Government.

The Federal tax is used to pay both State and Federal administrative costs associated with the unemployment compensation and State employment service programs, to pay most of the cost of operating State employment service programs, to fund 50 percent of the extended benefits paid to employed workers under the Federal-State Extended Compensation Act of 1970, and to maintain a loan fund from which an individual State may borrow when it lacks funds to pay State unemployment compensation benefits.

States also levy unemployment compensation taxes on covered, private employers in the State. State taxes finance regular State benefits and one-half the cost of extended benefits. State unemployment funds are deposited with the Federal Government in the unemployment trust fund, which is a part of the unified Federal budget. States then pay benefits from this fund.

Most unemployment benefits are paid through the Federal Unemployment Trust Fund which consists of a number of accounts and which draws its funding partly through State payroll taxes, partly through the Federal Unemployment Tax, and partly from general revenues.

Regular State unemployment benefits are paid by the States from individual State accounts in the trust fund. These State ac-

counts are primarily funded by State payroll taxes on employers. However, if a State account is unable to meet its obligations, the State account may be supplemented by loans from a Federal loan account in the trust fund.

In most States, regular State unemployment benefits are payable for a maximum of 26 weeks. In times of high unemployment, the Federal-State extended benefit program goes into effect providing up to 13 additional weeks of benefits.

The extended benefits program triggers on in a State when the insured unemployment rate (IUR) in that State reaches at least 5 percent and is at least 20 percent higher than the rate prevailing on average during the comparable period in the previous 2 years. However, a State may elect an optional trigger which permits the payment of extended benefits when the State IUR is at least 6 percent, even if that rate is not 20 percent higher than the rate prevailing in the 2 prior years.

Half the cost of the extended benefit program is met from State payroll taxes and half the cost is met from a trust fund account which is primarily funded through a portion of the 0.8 percent Federal unemployment tax on employers.

Federal general revenue funds are advanced as needed to cover shortages in the account which pays the Federal share of extended benefits and in the account from which States borrow to meet shortages in State accounts. In addition, general revenues are used to meet the cost of certain benefits provided under Federal law. These include unemployment benefits for Federal employees and ex-servicemen, trade adjustment assistance benefits, and benefits under special programs related to disaster relief and the Redwoods Park. Except for Federal civilian employees and ex-service members (beginning in fiscal year 84), these separately funded general revenue programs are not included in the trust fund totals.

A special program also exists for workers in the railroad industry. This is funded by employer contributions which are paid into a separate trust fund account administered by the Railroad Retirement Board.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) established the Federal Supplemental Compensation (FSC) program, which provides additional weeks of unemployment compensation to individuals who have exhausted their regular State benefits and any extended benefits to which they were entitled. The program is financed by general revenues. Weekly benefit amounts are identical to regular State program benefits for each claimant.

As originally enacted, the FSC program provided 10, 8, or 6 additional weeks of benefits. The Surface Transportation Assistance Act of 1982 (Public Law 97-424) increased the maximum number of weeks of FSC benefits to 16, 14, 12, 10, or 8, depending on the State where the individual qualified for the benefits between September 12, 1982 and March 31, 1983.

Beginning with the week of January 9, 1983, the FSC program provides the following maximum weeks of benefits:

(1) 16 weeks in States with an insured unemployment rate (IRU) exceeding 6.0 percent;

(2) 14 weeks in States that were triggered on the extended benefits program between June 1, 1982 and January 6, 1983;

(3) 12 weeks in States with an IUR of at least 4.5 percent that have not been triggered on the extended benefits program between June 1, 1982 and January 6, 1983;

(4) 10 weeks in States with an IUR of at least 3.5 percent, but less than 4.5 percent and that have not been triggered on the extended benefits program between June 1, 1982 and January 6, 1983;

(5) 8 weeks for all other States.

In order to be eligible for these benefits, an individual must have exhausted his regular State benefits and any extended benefits to which he was entitled and (1) his benefit year must end on or after June 1, 1982 or (2) he must have been eligible for extended benefits for any week beginning on or after June 1, 1982.

When an individual is determined to be eligible for State unemployment compensation benefits, he generally has 52 weeks, known as the benefit year, in which to collect the benefits to which he is entitled. In most States, the benefit year begins with the first week for which a valid claim for benefits was filed. Therefore, in most States, if an individual first filed a valid claim for unemployment compensation benefits for a week beginning on or after June 1, 1981, he should be eligible for FSC benefits. If an individual's benefit year ends before June 1, 1982, but he was eligible to receive extended benefits for any week beginning on or after June 1, 1982, he will be eligible for FSC benefits.

If an individual is eligible for FSC benefits, the number of weeks of such benefits is determined in relation to the number of regular State benefits to which he was entitled. An eligible individual will receive the lesser of 65 percent of the number of weeks of regular State benefits to which he was entitled or the maximum number of weeks of FSC benefits provided in the State where he qualified for the benefits.

Proposed Legislation.—The Administration has proposed three major policy changes: (1) an extension and modification of Federal Supplemental Compensation (FSC) through September 30, 1983; (2) establishment of vouchers for job subsidies that FSC claimants could offer to potential employers and (3) permission for the States to use 2 percent of their current year unemployment tax revenue to fund retraining or relocation of UC claimants.

The cash component of FSC would be changed in several ways. First, the number of weeks available in the States would be:

(1) 16 weeks in States with insured unemployment rates (IUR) of at least 6.0 percent;

(2) 12 weeks in States with IURs of at least 4.5 percent but less than 6.0 percent; and

(3) 8 weeks in all other States.

Second, the number of weeks of employment a claimant must have in his base year to qualify for benefits would increase from 20 to 30 weeks. Third, persons who have voluntarily quit their jobs or have been fired for good cause would be disqualified from receiving FSC.

The job vouchers would provide a subsidy to a prospective employer equal to one-half of the claimant's weekly benefit amount

for twice the claimant's remaining weekly FSC benefits. For example, if a claimant had 10 weeks of benefits remaining at $120 per week, the employer could ultimately receive a total subsidy of $1,200 for 20 weeks of employment. The subsidy would be a credit against the employer's State or Federal unemployment taxes. If an employer's total subsidy exceeded his unemployment taxes, he could credit the excess against his corporate income tax.

The Administration also indicated that it would promote unemployment compensation for partially unemployed persons and would exclude youth from Federal unemployment tax coverage who work under its proposed sub-minimum wage of $2.50 per hour from May 1 to September 1 of each year. Details of these proposals were not available as of February 25, 1983.

Finally, the Administration projected that $9.1 billion and $6.4 billion in advances from the General Fund to the Unemployment Trust Fund will be required in fiscal years 1983 and 1984, respectively, to finance additional State borrowing. This would increase the Trust Fund debt to the General Fund from $15.3 billion at the end of fiscal year 1982 to $30.2 billion by the end of fiscal year 1984. About $23.2 billion of this fiscal year 1984 debt will be owed by insolvent State UC programs and about $7 billion will be owed by the extended benefits program account for past advances to finance underfunded outlays incurred in response to the 1974-1975 recession.

Chart 7.—WELFARE PROGRAMS FOR FAMILIES

[In billions of dollars]

	Fiscal year—	
	1983	1984
Present law:		
Aid to families with dependent children:		
Welfare payments	6.847	6.837
Administration	.925	.979
Work incentive program (WIN)	.271	(1)
Child support:		
Total collections	.877	.923
Federal share	.344	.369
Administrative costs	.456	.436
Net collections:		
Federal share	—.113	—.067
Title IV–B (child welfare)	.167	(1)
Title IV–E (foster care, adoption assistance)	.400	2.445
Proposed legislation:		
AFDC		—.666
Child support enforcement		3—.066

[1] Funding level determined by appropriation. The administration proposes no funds be appropriated for WIN in fiscal year 1984, and that the separate authority for child welfare training grants be repealed.

[2] Legislation is proposed to make this a closed-end entitlement.

[3] Includes $10 million in child support financing reductions, and $56 million in AFDC savings resulting from child support changes.

Chart 7

Welfare Programs for Families

A. AID TO FAMILIES WITH DEPENDENT CHILDREN

The program of Aid to Families with Dependent Children (AFDC) provides Federal matching for State programs of cash assistance to needy families with children in which at least one parent is deceased, disabled, or absent from the home. States, at their option, may also provide benefits for families in which dependency arises from the parent's unemployment. Twenty-one States plus Guam and the District of Columbia have elected to provide benefits to families with unemployed parents. The amount of Federal matching for AFDC benefits varies from State to State under formulas providing higher percentages in States with lower per capita incomes. The national average contribution by the Federal Government is 54 percent. States establish their own income eligibility and benefit levels.

Under present law, the average number of families and recipients receiving monthly payments as estimated by the Administration to be:

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Families	3.6	3.8	3.8
Individuals	10.4	11.0	10.9

Administration estimates for Federal program costs are as follows:

[In millions of dollars]

	Fiscal year—			
	1982	1983	1984	Change
AFDC benefits	6,575	6,781	6,768	−13
Emergency assistance	51	51	53	+2
Other assistance payments	15	15	16	+1
State and local administration and training	863	884	943	+59
Federal administration and related costs	27	41	36	.....
Subtotal, current law	7,531	7,772	7,816	49
Proposed legislation			666	−722
Total, outlays	7,531	7,772	7,150	−673

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A number of legislative changes aimed at reducing AFDC expenditures were included in the Omnibus Budget Reconciliation Act of 1981. These amendments defined and limited amounts of earnings that can be "disregarded" in determining benefits. They authorized States to develop a variety of new employment programs for recipients, including community work experience programs, work supplementation programs and Work Incentive demonstration programs. They tightened the eligibility and benefit determination process by requiring States to use retrospective accounting and monthly reporting procedures. In addition, the amendments further limited eligibility and benefit payments by: requiring that a stepparent's income be counted in determining the family's benefit; providing eligibility for a pregnant woman with no other children only beginning with the 6th month of pregnancy; requiring that lump-sum payments be treated as income in the month of receipt and future months; establishing maximum asset limits; requiring that the amount of earned income tax credit (EITC) which an individual is eligible to receive on an advance basis be assumed in determining the amount of the benefit, whether or not the EITC is actually received; and requiring States to recover overpayments and pay underpayments. At the time of the passage of the Reconciliation Act, the Congressional Budget Office estimated that the legislative changes in the AFDC program would produce AFDC savings in fiscal year 1982 of $1,026 million. CBO later reduced the amount of estimated savings to $573 million.

Additional changes in the AFDC program were made by the Tax Equity and Fiscal Responsibility Act of 1982. The 1982 legislation authorized State welfare agencies to require both applicants and recipients to participate in job search programs; permitted proration of benefit amounts for shelter and utilities when AFDC families share a household with others; prohibited payments where absence is due solely to active duty in a uniformed service; permitted the disregard of certain statutorily-mandated payments made by a State welfare agency; permitted the disregard of supplementary payments made by a State to compensate for a lag in benefit adjustment due to retrospective accounting; required States to make benefits payable no earlier than the date of application; required the rounding of need and benefit amounts to the next lower whole dollar; and reduced the payment error rate which States may have before being subject to a reduction in Federal matching from 4 percent to 3 percent, beginning in fiscal year 1984. CBO estimated AFDC savings from these changes at $85 million for fiscal year 1983.

B. WORK INCENTIVE PROGRAM

The Work Incentive (WIN) program is charged with administering the work registration requirement for AFDC recipients, and providing employment and training services for those who are required to register or who volunteer for WIN services. The program also provides support services, including child care, for those who need them in order to work or take training. The program is administered jointly at the Federal level by the Department of

Health and Human Services and the Department of Labor, and at the State level by the welfare (or social service) agency and the employment service.

The Omnibus Budget Reconciliation Act of 1981 included a provision authorizing States to operate a 3-year demonstration program as an alternative to the current WIN program. The demonstration is aimed at testing single-agency administration, and the demonstration must be operated under the direction of the welfare agency. The legislation includes broad waiver authority to allow States to experiment with alternative methods of providing employment and training services. (The period for applying for HHS approval of demonstration programs was extended to June 30, 1984 by the Tax Equity and Fiscal Responsibility Act of 1982.)

Funding for WIN was $365 million in fiscal year 1981, $281 million in fiscal year 1982, and $271 million in fiscal year 1983.

C. CHILD SUPPORT ENFORCEMENT

The purpose of the Child Support Enforcement (CSE) program is to enforce support obligations owed by absent parents to their children, locate absent parents, establish paternity, and obtain child support. The program is closely tied to the AFDC program. As a condition of eligibility for AFDC, each applicant or recipient must assign the State any rights to support which he may have in his own behalf or in behalf of children in the family, and must cooperate with the State in establishing paternity and in obtaining support payments. States are also required to provide child support services to families who are not eligible for AFDC. The Federal Government currently pays 70 percent of administrative costs.

Collections for AFDC families and total costs under the program are as follows:

[In millions of dollars]

	Fiscal year—	
	1982	1983
Collections (AFDC families):		
Total (Federal and State)	793	877
Federal share	308	344
Administrative costs:		
Total (Federal and State)	605	640
Federal share	459	456
Net collections (collections minus costs):		
Total (Federal and State)	188	237
Federal share	−151	−113

The program made collections on behalf of an estimated 514,000 AFDC families and 404,000 non-AFDC families in 1981. Total child support collections in fiscal year 1982 were about $1.5 billion, about half of which was collected on behalf of families receiving AFDC and half on behalf of non-AFDC families.

The Omnibus Budget Reconciliation Act of 1981 included several provisions aimed at making the program more effective and reducing administrative costs. The amendments: authorized the collection of past-due child and spousal support from Federal tax refunds in the case of families receiving AFDC; expanded the authority in prior law to enforce obligations for support of a child to include, in addition, authority to enforce obligations for support of the parent with whom the child is living; required States to retain a fee equal to 10 percent of the support owed on behalf of a non-AFDC family, to be charged against the absent parent and added to the amount of the collection; provided that a support obligation assigned to the State as a condition of AFDC eligibility may not be discharged in bankruptcy; and required States to have a program to collect child support obligations which are being enforced under a State child support enforcement program by reducing the unemployment benefits of an absent parent. The CBO estimated savings of $86 million in fiscal year 1982 from these changes.

Changes made by the Tax Equity and Fiscal Responsibility Act of 1982 included a reduction in Federal matching for the child support enforcement program. Federal matching for State administrative costs was reduced from 75 percent to 70 percent, effective October 1, 1982; child support incentive payments were reduced from 15 to 12 percent, effective October 1, 1983; and Federal matching for the costs of court personnel were repealed, effective October 1, 1983. The 1982 Act also restored the law in effect prior to the 1981 Reconciliation Act which allows States to charge a reasonable fee for a non-AFDC collection and retain from the amount collected an amount equal to administrative costs not covered by the fee. The amendment retains, as a State option, the authority to collect from the parent who owes child or spousal support an amount to cover administrative costs, in addition to the child support payments. The 1982 Act also included a provision relating to the treatment of child support collections made after the first month of AFDC ineligibility. CBO estimated savings from these changes at $92 million in fiscal year 1983 and $141 million in fiscal year 1984.

Child Welfare, Foster Care and Adoption Assistance

D. CHILD WELFARE SERVICES

Under title IV-B of the Social Security Act, grants to the States are authorized for the purpose of providing child welfare services. Allocations to the States reflect State per capita income and the size of the population under age 21. Public Law 96-272, the Adoption Assistance and Child Welfare Act of 1980, restructured the

child welfare services program to place greater emphasis on services designed to prevent or remedy the need for long-term foster care. The child welfare services program received $164 million in appropriations in fiscal year 1981, with an additional $5 million provided for child welfare training. The 1982 and 1983 continuing resolutions provided a spending level of $156 million for child welfare services, and $4 million for child welfare training in each of those years.

E. FOSTER CARE AND ADOPTION ASSISTANCE

The Adoption Assistance and Child Welfare Services Act of 1980 (P.L. 96-272) involved a major restructuring of Social Security Act programs for the care of children who must be removed from their own homes. In particular, prior law was modified to lessen the emphasis on foster care placement and to encourage efforts to find permanent homes for children either by making it possible for them to return to their own families or by placing them in adoptive homes. The foster care and adoption assistance program is embodied in title IV-E of the Social Security Act.

Before fiscal year 1981, open-ended Federal matching was provided for foster care payments under the AFDC program for children who met certain specified conditions. Public Law 96-272 set a ceiling on Federal foster care matching funds for 4 years beginning with fiscal year 1981. The ceiling is contingent upon the appropriation of specified additional amounts for the child welfare services program.

Title IV-E authorizes an adoption assistance program under which a State is responsible for determining which children in foster care are eligible for adoption assistance because of special needs which have discouraged their adoption. In the case of any child meeting the special requirements set forth in the law, the State may offer adoption assistance to parents who adopt the child. The amount of assistance is agreed upon between the parents and the agency.

Federal matching for the foster care and adoption assistance programs is at the medicaid matching rate. Budget authority for foster care was $300 million in fiscal year 1982, increased to $395 million in fiscal year 1983. Budget authority for adoption assistance was $5 million in each of those fiscal years.

PROPOSED LEGISLATION

A. Aid to Families with Dependent Children

The President's budget includes a number of proposals to reduce the cost of the AFDC program. As shown in the table below, the Administration estimates that savings would total $666 million in fiscal year 1984, and $899 million in fiscal year 1985.

AFDC PROPOSALS

[In millions of dollars]

	Fiscal year—	
	1984	1985
Require inclusion of parents and siblings in filing unit (except SSI recipients)	−131	−133
Require States to adjust shelter and utility costs [1]	−229	−233
End benefits to employable parents when youngest child turns 16 [1]	−22	−22
Require all employable recipients to participate in work	−275	−501
Prohibit payment when parent is absent due to employment related activities	−5	−5
Sanction an individual who chooses not to work	−1	−1
Permit States to require parents of children aged 3 through 5 to register for work if child care is available	−3	−4
Total AFDC effect:		
Total AFDC savings [1]	−666	−899
Medicaid offset (To proposals 1–4)	−93	−184
Subtotal	−759	−1,083

[1] Includes reduction for interaction of proposals.

Require inclusion of parents and siblings in filing units.—There is no requirement in present law that parents and all siblings be included in the AFDC filing unit. Families applying for assistance may exclude from the filing unit certain family members who have income which might reduce the family's benefit. For example, a family might choose to exclude a child who is receiving social security or child support payments, if the payments would reduce the family's benefits by an amount greater than the amount payable on behalf of the child. In addition, a mother who is a minor is excluded if she is supported by her parents. However, if she has no income of her own which may be attributed to her child, the child may qualify for assistance as a one-person unit, and receive proportionately more in assistance than it would receive as part of a two-person unit.

The Administration's proposal would require States to include in the assistance unit the parents and all minor siblings (except SSI recipients) living with a child who applies for or receives AFDC. A similar proposal was agreed to by the Committee last year, but was dropped in conference with the House.

Require States to adjust shelter and utility costs.—An amendment in the Tax Equity and Fiscal Responsibility Act of 1982 gave States the option of prorating or otherwise adjusting the portion of the AFDC benefit which is paid for shelter and utilities to take into account economies of scale which may result when the AFDC family shares a household with other individuals. States were given

flexibility in determining the method of adjustment they wished to use.

The Administration proposes to *require* States to adjust the portion of the grant paid for shelter and utilities when the family shares a household. The adjustment would apply to both the need and payment standards, using a formula which takes into account the number of persons in the assistance unit and the number of persons in the entire household. (No adjustment would be made with respect to SSI recipients who are living with the AFDC family and whose benefits are reduced by one-third because of the special rule for counting in-kind support and maintenance.)

End benefits to employable parents when youngest child is 16.—Current law continues the eligibility of a parent/caretaker so long as the youngest child is eligible for benefits, i.e., until the child reaches 18, or, at the option of the State, age 19 if the child is in school and is expected to complete his course of study before his 19th birthday. Under the Administration's proposal, when the youngest child reaches 16, an employable caretaker relative would no longer be considered part of the assistance unit. The determination of whether the caretaker relative is employable is to be made according to the rules requiring registration for the State's work-related programs for AFDC recipients. If the excluded caretaker relative is the parent of the child, his income must be considered as available to the child after application of certain disregards. This proposal was agreed to by the Committee last year, but was deleted in conference with the House.

Require all employable adults to participate in CWEP and job search.—In the 1981 Reconciliation Act, States were given the authority to establish community work experience (CWEP) programs, under which AFDC recipients could be required to work in projects "which serve a useful purpose" in exchange for their AFDC benefits. According to the Administration, 23 States currently operate or will soon begin to operate CWEP programs. In addition, that same legislation authorized States to conduct work supplementation programs, under which States may reduce welfare grants and use resulting savings to assist in funding public or nonprofit employment for recipients who voluntarily choose to participate in the work supplementation program. A third employment program option provided to the States was authority to operate demonstration programs under the Work Incentive program. Another work-related provision was enacted in the Tax Equity and Fiscal Responsibility Act of 1982, which authorized States to require applicants and recipients to participate in job search programs operated by the welfare agency.

The Administration's proposal would require all States to operate programs under which all employable adult recipients would not only have to register for a work program but would be required to participate in job search and/or CWEP. Applicants would be required to look for jobs while their eligibility is being determined. For all but two-parent families, States could request waivers to substitute grant diversion (programs in which grants are used to subsidize jobs), or work supplementation for CWEP.

Last year the Administration proposed that both CWEP and job search programs be made mandatory on the States. However, the

Committee agreed that these programs should be optional with the States.

Prohibit AFDC payments when absence of parent is due to an employment-related activity.—Under current law, if a parent leaves the home in order to maintain employment elsewhere, the remaining members of that parent's family may be eligible for AFDC assistance on the basis that the parent is "absent from the home."

The proposed change would prohibit AFDC payments in any case in which the sole reason for a parent's absence is employment-related activity. This provision is similar to a change made in the Tax Equity and Fiscal Responsibility Act of 1982 which prohibits assistance to families when the sole reason for such assistance is the absence of a parent due to performance of duty in one of the uniformed services.

Remove parent/caretaker from the assistance unit for voluntarily quitting work: reducing earnings, refusing employment, or refusing a CWEP assignment.—Current regulations provide sanctions for AFDC recipients who are required to register for employment and training if they voluntarily quit work, reduce earnings, refuse employment, or refuse a CWEP assignment. This penalty does not apply to those who are not required to register because they are employed 30 hours or more a week, or live in an area so remote from a WIN program that their participation is precluded.

The Administration proposes to extend the sanctions to these nonregistrants. The Committee approved this provision last year, but it was not agreed to by the House conferees.

Permit States to require parents of children age 3 through 5 to register for work if child care is available.—Under current law the parent or other caretaker relative of a child is required to register for work if the youngest child is age 6 or older. In addition, States have the option of requiring AFDC mothers whose youngest child is between 3 and 6 to participate in the community work experience program if child care is available.

The Administration proposal would permit States to require the parent or caretaker relative to register for other work activities in addition to CWEP, if the youngest child is between 3 and 6 years old and if child care is available. This proposal was submitted by the Administration last year, but was not adopted by the Committee.

Other changes for which the Administration has not estimated costs or savings.—The Administration is planning to submit a number of additional amendments for which it has not estimated any budget effect. These include: permitting Federal agencies to be sponsoring agencies for CWEP participants; limiting the definition of who may qualify as an "essential person" in determining the family's AFDC grant to relatives who live with the AFDC child and provide care where the relative is unable to do so, or in order to enable the relative to work full time; requiring counting of nonrecurring lump-sum income received by an individual who is not a member of the unit but whose income is counted; requiring attribution of the assets of a sponsoring agency or organization to an alien; requiring minor parents to reside with their parents; counting as income amounts withheld as a penalty from other benefits which otherwise would have been counted as income; requiring ex-

clusion of the needs of caretakers who are capable financially of repaying an overpayment but refuse to cooperate in doing so (up to statutory limits); and permitting disclosure of AFDC information to law enforcement officials to be used in connection with any criminal proceeding or prosecution.

B. Work Incentive (WIN) Program

The appropriation for the WIN program was $365 million in fiscal year 1981, $281 million in fiscal year 1982, and $271 million in fiscal year 1983. The Administration requested that no funds be appropriated for WIN in fiscal year 1983, and is repeating the zero appropriation request for fiscal year 1984.

The Administration suggests that the services authorized under the WIN program may be provided by other programs, including the other AFDC work-related programs, the social services block grant, and the Job Training Partnership Act. Phase-out activities in 1984 would be paid for by using the unexpended 1983 carryover funds.

C. Child Support Enforcement

Restructure Federal matching provisions.—The Federal government pays 70 percent of State and local administrative costs for child support services to both AFDC and non-AFDC families. (The matching rate was reduced from 75 percent beginning in fiscal year 1983 by the Tax Equity and Fiscal Responsibility Act of 1982.) Where the absent parent's family is receiving AFDC, any child support that is collected is used to offset AFDC benefit costs. An additional 15 percent incentive payment financed solely out of the Federal share of collections is also made to States and localities which make collections on behalf of an AFDC family. (The incentive payment is reduced to 12 percent in 1984 by that same Act.)

Under the proposed change, funding for the program would be provided by AFDC child support collections. States would apply their administrative expenses for services to AFDC families against child support collections on behalf of AFDC recipients. The residual net collections, whether positive or negative, would then be divided between the State and Federal governments according to the State AFDC matching rate. Bonus payments would be allotted according to standards determined by the Secretary in the following three areas: (1) child support collections for AFDC families; (2) program cost effectiveness; and (3) cost avoidance program savings. The standards for measuring performance in these three categories would be reviewed at least once every two years.

Funding for automated data processing systems would be authorized through project grants, rather than by the 90 percent Federal matching formula in present law.

The new financing mechanism would be phased in over three years. During that time, States would have the option of receiving funding under the new proposal, or of receiving a level of funding equivalent to 75 percent of what they could have received under the prior law. Savings under this proposal are estimated by the Administration to be $10 million in fiscal year 1984, and $51 million in fiscal year 1985.

This financial restructuring proposal without a phase-in was submitted to Congress in 1982, but was not agreed to by the Committee.

Require States to enact laws requiring the use of certain child support enforcement practices.—Many States have adopted certain procedures which have frequently been found to be cost-effective in operating the child support enforcement program. These include use of mandatory wage assignments, administrative hearing processes to replace court processes, and State income tax offsets for overdue support payments. These procedures are not currently included as part of the child support State plan requirements.

The Administration is recommending that States be mandated to enact laws under which they would be required to use these specified child support procedures. States would also have to have as part of their State plans a requirement that medical support will be sought for AFDC children when it is available at a reasonable cost through employer-subsidized health insurance. The Administration estimates that these changes would result in reduced AFDC costs of $56 million in each of fiscal years 1984 and 1985.

D. Child Welfare Services

The Administration's budget request includes $156 million for child welfare services and child welfare training combined. The Administration is proposing legislation to repeal the separate authority for training grants, and to make training an activity for which child welfare services program money may be used. Funding for fiscal year 1983 included $156 million for child welfare services, and an additional $4 million for training. Funding for child welfare research was $7 million in fiscal year 1983. No funds are requested for child welfare research in fiscal year 1984. Instead, funding for such activities will be provided under a general human resources research and demonstration program.

E. Foster Care and Adoption Assistance

Under current law, States are entitled to Federal matching for foster care payments made on behalf of all eligible children, unless a "cap" is triggered by a specified level of appropriations for the child welfare services program. The rationale for the present law cap (which is in effect through fiscal year 1984) is that when a relatively high level of funding is available for services over a period of time, States will be able to provide services which enable children to stay in their own homes or be placed in an alternative permanent setting, rather than be placed in temporary foster care homes or institutions. This mandatory cap has not been in effect recently because the appropriations have not reached the specified level.

The Administration is proposing legislation to make the foster care program a closed-end entitlement, with a permanent funding level of $440 million, which is the amount estimated to be spent by the States under current law. Funds would be allocated to the States in the same proportion as Federal payments were made to the States before December 31, 1983 for foster care maintenance payments under parts A and E for fiscal year 1982. The Administration proposes funding of adoption assistance of $5 million in fiscal year 1984, the same amount as provided in fiscal year 1983.

Chart 8.—SOCIAL SERVICES

[In billions of dollars]

	Fiscal year—	
	1983	1984
Present law:		
Title XX block grant	2.450	2.500
Proposed legislation:		
None.		

Chart 8

Social Services

In addition to cash benefit programs and medical assistance, the Social Security Act includes provisions in title XX which make Federal funding available for social services. In previous years, title XX legislation authorized matching funds for State social services programs on an entitlement basis. The Federal matching rate was generally 75 percent. In the Omnibus Budget Reconciliation Act of 1981, a new social services block grant program was created to replace the prior Federal-State matching program. A number of requirements on the States have been removed, and funding levels have been reduced. The program remains an appropriated entitlement, with each State eligible to receive its share of a national total of $2.4 billion in fiscal year 1982, $2.45 billion in fiscal year 1983, and $2.5 billion in fiscal year 1984.

As under the previous statute, allocations are made on the basis of State population. States may determine how their funds are to be used and who may be served. There are no family income requirements, and no fee requirements.

Proposed Legislation

The fiscal year 1984 budget request for the social services block grant program is equal to the authorization level of $2.5 billion, an increase of $50 million over fiscal year 1983. No change is proposed in the authorizing legislation. However, no funding is being requested for the community services block grant, which was funded at $343 million in fiscal year 1983. The Administration proposes that States use other sources of funding, particularly the social services block grant, to fund community services activities. (The community services block grant is under the jurisdiction of the Committee on Labor and Human Resources.)

Chart 9.—SUPPLEMENTAL SECURITY INCOME

[In billions of dollars]

	Fiscal year—	
	1983	1984
Present law:		
Total expenditures	8.8	*7.5
Proposed legislation:		
National Commission proposal to increase income disregard	+.2	+.5
Other proposals	−.1	−.2

*1983 reflects 13 months of benefit payments; 1984 reflects 11 months of benefit payments.

Chart 9

Supplemental Security Income

Since January 1974, the Social Security Administration has been responsible for administering a basic income support program for needy aged, blind, and disabled persons called Supplemental Security Income (SSI). This program is funded entirely from general funds. The law establishing the SSI program permits the temporary use of the social security trust funds to meet the administrative costs of the program but provides specific safeguards to assure that those costs are promptly reimbursed to the trust funds by an appropriation from general revenues.

Under present law, the average number of recipients receiving federally administered SSI payments is estimated by the Administration to be as follows:

[In thousands]

	Fiscal year—	
	1983	1984
Aged	1,295	1,205
Blind and disabled	2,155	2,150
Total, Federal	3,450	3,355
State supplementary payments only	420	425
Total, SSI	3,870	3,780

The maximum Federal monthly payment is $284.30 for an individual, and $426.40 for a couple. Beginning in July 1983, the maximum Federal monthly payment is expected to rise to $298.00 for an individual and $448.00 for a couple. These increases are due to annual adjustments made in July to reflect increases in the cost of living. The Administration projects an adjustment of 5.1 percent in July 1983.

The SSI program was modified by two major pieces of legislation in the last two years, the Omnibus Reconciliation Act of 1981 (OBRA) and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). OBRA provided for: changing the method of accounting from a quarterly prospective basis to a monthly retrospective basis; allowing the three States (California, Massachusetts and Wisconsin) that had previously been providing cash in lieu of food stamps to SSI recipients to continue to do so as long as they continue to

meet certain specified conditions; notifying the Secretary of Health and Human Services by the Secretary of the Treasury of all benefit checks which have not been cashed within 180 days after the date of issuance, and required the Secretary of HHS to return amounts which represent State supplementary payments to the State; and limiting payment to State vocational rehabilitation agencies by authorizing reimbursement only for services provided to SSI recipients who subsequently perform substantial gainful activity lasting for a continous period of 9 months.

The Tax Equity and Fiscal Responsibility Act made the following additional minor changes in SSI: it required that any payment for the first month of eligibility must be prorated based on the date of application or the date of eligibility, whichever is later; required rounding of SSI monthly benefit and income eligibility amounts to the next lower dollar; provided for coordinating SSI and OASDI cost-of-living increases; continued phasing out "hold harmless" protection for the two States which still retain that status; provided for excluding as resources certain funds set aside for burial expenses, as well as burial plots; and made other clarifying and technical changes.

The Administration estimates present law Federal program costs as follows:

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Federal benefits	6,833	7,695	6,572
Hold-harmless payments	20	12	5
Beneficiary services	14	97	5
Administrative and other costs	810	956	927
Total	7,677	*8,760	*7,509

*1983 reflects 13 months of benefit payments; 1984 reflects 11 months of benefit payments.

Proposed Legislation

The Administration's budget estimates for SSI reflect net outlay increases of $85 million in 1983 and $341 million in 1984 resulting from legislation, including the recommendation of the National Commission on Social Security Reform to increase the disregard of OASDI income from $20 to $50, and other changes as shown below.

SSI PROPOSALS

[In millions of dollars]

	Fiscal year—	
	1983	1984
Increase the disregard of OASDI income	+195	+530
Six-month COLA delay	−110	−145
Eliminate windfall benefits		−14
Cross program recovery of overpayments		−19
Other unspecified proposals		−11
Total	+85	+341

Increase the disregard of OASDI income.—The original SSI statute enacted in 1972 included a provision to disregard $20 of income received by an individual in a month in determining eligibility and the amount of the SSI benefit. The income may be earned or unearned (except for some income based on need, such as veteran's pensions, which is fully counted). The disregard was provided to ensure that persons who had contributed toward an earned entitlement, such as OASDI, or persons who were currently working were better off than those who had not. The amount of the disregard has not been increased since 1972.

The Administration has included in its fiscal year 1984 budget the recommendation of the National Commission on Social Security Reform to increase the SSI disregard by $30 per month of OASDI income (not other income) in determining SSI eligibility and benefit amount. The effect would be to increase by $30 the monthly income of those individuals who are entitled to both OASDI and SSI, effective in July 1983.

Six-month COLA delay.—Under present law, the Social Security Act provides that OASDI and SSI benefits will be increased whenever the Consumer Price Index (CPI) for the first quarter of a year rises by at least 3 percent when compared to the CPI for the first quarter of the preceding year. The cost-of-living adjustment (COLA) is based on the increase in the CPI and is paid in July.

The Administration proposes delaying the cost-of-living benefit adjustment by 6 months, beginning with the 1983 benefit increase which would be paid in January 1984. (The budget also includes the National Commission's recommendation to delay the OASDI benefit increase by six months.) There would be no change in the manner in which the January 1984 COLA would be calculated. However, in future years the COLA would be calculated as the increase in the CPI in the third quarter of a year over the third quarter of the preceding year. This would keep the period from the end of the measuring period to the month in which the increase is given comparable to present law.

Eliminate windfall benefits.—Legislation was enacted in 1980 aimed at ensuring that an individual's entitlement under the OASDI and SSI programs would not result in windfall benefits. Under this legislation, OASDI lump-sum payments are reduced by

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the amount of any SSI payments which an individual received and which would not have been payable if he had received OASDI benefits on a current basis (from the time of entitlement). The Administration is recommending a technical change in this provision to ensure that the purpose of the 1980 legislation is achieved.

The Administration proposal would: extend the provision to cases where OASDI benefits are paid before the SSI benefits, but for the same period; extend the provision to apply to OASDI benefits paid after a period of benefit suspension; and make technical corrections to better integrate the provision with the retrospective monthly accounting provision enacted in 1981.

Cross-program recovery of overpayments.—The Administration is planning to submit legislation designed to simplify and improve SSA debt management and program administration. This will include a proposal to require cross-program recovery of overpayments, which would allow SSA to collect overpayments made under one program (OASDI, SSI and black lung) from benefits payable under another. A similar proposal was submitted by the Administration last year and was approved by the Committee. It was deleted in conference with the House.

Chart 10.—MEDICARE TRUST FUNDS UNDER PRESENT LAW

[Amounts in millions]

	Fiscal year						
	1982	1983	1984	1985	1986	1987	1988
Hospital insurance:							
Income [2]	37,611	28,030	44,113	48,372	55,138	60,242	64,855
Outgo	34,864	39,203	45,133	51,788	58,394	67,530	76,779
Net increase	2,747	−11,173	−1,020	−3,416	−3,256	−7,288	−11,924
Funds at end of year	20,840	9,667	8,647	5,231	1,975	−5,313	−17,237
Ratio [3]	51.9	53.2	21.4	16.7	9.0	2.9	−6.9
Supplementary medical insurance:							
Income	17,627	19,195	21,894	26,013	29,857	34,111	38,723
Outgo	15,560	18,270	21,478	25,010	28,793	32,862	37,365
Net increase	2,067	925	416	1,003	1,064	1,249	1,358
Funds at end of year	5,810	6,735	7,151	8,154	9,218	10,466	11,824
Ratio	24.1	31.8	31.4	28.6	28.3	28.1	28.0

Source: Department of Health and Human Services, Office of the Actuary.

1. Present law assumes economic assumptions included in Presidents 1984 budget.
2. Includes an interest repayment for the interfund loan of $12,437 million to OASI. If these payments are not made, the fund at the end of the Year would be $8,973, $6,616, and $1,863 million in fiscal years 1983, 1984 and 1985, respectively.
3. Assets at beginning of year as a percentage of outgo during the year.

Chart 10

Medicare Trust Funds Under Present Law

This chart shows the status of the two trust funds in each of seven fiscal years. The data in this chart were provided by the Office of the Actuary and are based on current law and take into account the amounts loaned from the Hospital Insurance Trust Fund to the Old Age Survivors Insurance Program (OASI), a total of $12.4 billion in 1982.

The projections for the Hospital Insurance Trust Fund do not include any of the provisions which the Administration supports that affect social security financing and trust fund balances, such as prospective payment and the proposals of the National Commission on Social Security Reform.

The assumptions for the Hospital Insurance Trust Fund assume interest repayments for the interfund loan made to OASI. If the payments fail to be made, the trust fund will become insolvent sometime during 1986.

Outlays for medicare are expected to continue to increase rapidly as a result of increasing health costs in general and hospital costs in particular.

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Chart 11.—HEALTH PROGRAMS: PRESENT LAW (ADMINISTRATION ESTIMATES)

[Dollars in billions]

	Fiscal year—	
	1983	1984
Medicare trust funds:		
Hospital insurance:		
Income	40.5	44.1
Outgo	39.3	45.3
Net increase	1.2	−1.2
Interfund borrowing	−12.4	.....
Supplementary medical insurance:		
Income	19.2	21.9
Outgo	18.1	21.2
Net increase	1.1	.7
Medicaid:		
Federal expenditures	19.3	21.2
State costs	16.2	18.1
Total program	35.5	39.3
Maternal and child health	.4	.4

Source: Budget appendix.

Chart 11

Health Programs: Present Law

MEDICARE

Medicare is a nationwide health insurance program for the aged and certain disabled persons authorized by Title XVIII of the Social Security Act. It consists of two parts: Part A, or the Hospital Insurance program, provides protection against the costs of inpatient hospital services and related institutional costs; Part B, or the supplementary Medical Insurance Program, is a voluntary program which provides protection against the costs of physician services and other medical services.

The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), commonly referred to as TEFRA, contained a number of amendments to medicare that resulted in savings to the program. The savings are primarily attributable to reductions in provider payments. TEFRA significantly modified the existing hospital cost reimbursement system by expanding previous limits to include ancillary costs, establishing a 3-year target rate reimbursement system, and providing for the development of a prospective reimbursement system. The fiscal year 1984 savings to medicare as a result of these changes is estimated in the Administration budget at $2.5 billion.

The Administration budget estimates current law benefit and administrative outlays under medicare at $66.5 billion in fiscal year 1984. Of this amount, benefit payments account for $65.1 billion. This represents an increase of 16.3 percent over the fiscal year 1983 benefit payments of $56.0 billion. The Budget estimates that inpatient hospital expenditures will account for 65 percent of benefit payments, physicians services 24 percent, and skilled nursing facility services 1 percent.

Income to the trust funds in fiscal year 1984 is estimated at $66 billion, a shortfall over outgo of $0.5 billion.

MEDICAID

Medicaid is a federally aided, State-designed and administered program authorized by Title XIX of the Social Security Act, which provides medical assistance for certain categories of low income persons who are aged, blind, disabled or members of families with dependent children. Subject to Federal guidelines, States determine eligibility and the scope of benefits to be provided. Whatever a State is otherwise entitled to in Federal matching payments is reduced by 4 percent in fiscal year 1983 and 4.5 percent in fiscal year 1984. Under certain circumstances a State may be able to partially or fully offset the amount of its reduction.

The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) included several provisions designed to reduce Federal outlays.

These included provisions modifying program cost-sharing requirements and facilitating States' ability to impose liens on beneficiary estates.

The fiscal year 1984 savings to medicaid as a result of these changes is estimated in the Administration budget at $275 million.

The Administration budget projects total Federal-State medicaid costs for fiscal year 1984 under current law to be $39.3 billion, of which the Federal share is $21.2 billion. Of the Federal amount, $20.0 billion represents payments for benefits, with the remaining $1.2 billion going for State and local administrative costs. This represents an increase in total Federal outlays of 9.8 percent over fiscal year 1983.

States match Federal expenditures under medicaid, with total State expenditures accounting for approximately 46 percent of total program costs.

Under current law, in fiscal year 1984 State medicaid costs are estimated to be $18.1 billion, an increase of 11.7 percent over fiscal year 1982.

MATERNAL AND CHILD HEALTH BLOCK GRANT

Title V of the Social Security Act authorizes the Maternal and Child Health Services Block Grant which provides funding for the following programs: Maternal and Child Health and Crippled Childrens Services; Supplemental Security income services for disabled children; lead-based paint poisoning prevention; genetic disease; sudden infant death syndrome; hemophilia; and adolescent pregnancy. Under the Title V Block Grant, States determine the level of services. Typically States have supported such health services as those available in maternity clinics and well-child checkups.

P.L. 97-35 created the block grant by adding to maternal and child health and crippled children services those functions described above. The Federal/State matching requirements were also changed and now require the States to spend seventy-five cents to get a dollar.

The authorization level for the block is $373 million for fiscal year 1982 and subsequent fiscal years. For fiscal year 1983, the appropriation under the Continuing Resolution (P.L. 97-377) is set at $373 million.

Of this amount 85 percent ($317,050,000) will be allocated to States to provide block grant services; 15 percent ($55,950,000) will be retained by the Secretary for projects of regional and national significance, research, and training related to maternal and child health; and genetic disease and hemophilia programs.

Chart 12.—HEALTH PROGRAMS

Administration Legislative and Regulatory Proposed Changes

[Dollars in millions]

	Fiscal year—	
	1983	1984
MEDICARE		
Legislative proposals:		
Restructure cost-sharing		−$710
Prospective payments for hospitals		
Medicare voucher program		
Freeze MD reasonable charges	−$100	−700
Reduce hospital target rate		−80
Index Part B deductible		−50
Delay initial eligibility date		−215
Eliminate utilization review		−58
Durable medical equipment coinsurance		−15
Competitive procurement		−9
Waiver of provider liability		−10
Program management		−9
Total legislative savings	−100	−1,856
Other:		
Part B premium timing and increases (decrease in trust fund revenue)		−368
Impact of tax law changes (increase in trust fund revenue)		+332
MEDICAID		
Legislative proposals:		
Mandatory copayments		−249
Assignment of rights		−6

Chart 12.—HEALTH PROGRAMS—Continued

[Dollars in millions]

	Fiscal year—	
	1983	1984
Crossover claims		−1
Extension of Federal reductions		
Impact of changes in other programs:		
Impact of AFDC proposals		−93
Impact of medicare proposals	−7	+56
Total legislative savings	−7	−293
Regulatory initiative:		
Third party collections from child support		−89
MATERNAL AND CHILD HEALTH		
Legislative proposal:		
Modification of block grant requirements		

Chart 12

Health Programs: Administration Legislative and Regulatory Proposed Changes

MEDICARE

The Administration's fiscal year 1984 budget contains various proposed legislative initiatives resulting in an estimated savings to the program in fiscal year 1984 of $1.9 billion.

Legislative Initiatives

1. Restructure beneficiary cost-sharing and provide coverage for unlimited hospital days (catastrophic coverage).—The Administration budget proposes to restructure the current inpatient hospital and skilled-nursing facility patient cost-sharing requirements as follows:

—Eliminate cost sharing for any hospital days after 60 days in a benefit period.

—Impose a daily copayment equal to 8 percent of the inpatient deductible (estimated to be $28/day during calendar year 1984) from day 2 through day 15; and impose a daily copayment amount equal to 5 percent of the inpatient hospital deductible (estimated to be $17.50/day during calendar year 1984) from the 16th through 60th day of hospitalization in a benefit period.

—Limit the number of times a beneficiary must pay an inpatient hospital deductible to two each year.

—Reduce the skilled nursing facility daily copayment amount from 12.5 percent to 5 percent of the inpatient hospital deductible. The Administration estimates that the proposal will reduce outlays for fiscal year 1984 by $710 million.

2. Establish prospective payment system for hospitals.—The Administration budget proposes to change the basis on which medicare payments to hospitals are made from a "cost-based" system to a prospective payment system. Hospitals would receive a fixed payment per case based on the patient's diagnosis. The Administration estimates that the proposed prospective payment system will produce savings equal to the estimate of savings associated with the hospital reimbursement changes included in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Provisions contained in TEFRA are estimated to achieve a savings of $1.5 billion in fiscal year 1984.

3. Voluntary medicare voucher program.—The Administration budget proposes to establish a voluntary medicare voucher program under which beneficiaries could elect to receive services through a private health benefits plan (including certain health maintenance organizations) rather than through participation in medicare. The private plans would have to offer benefits at least

equivalent to medicare. The Government would contribute an amount equal to 95 percent of the average per-person cost of medicare coverage toward the purchase of private protection. The Administration estimates that there will be no cost impact in fiscal year 1984; it estimates that an additional $50 million will be spent in fiscal year 1985.

4. Freeze "reasonable charges" for physicians' services.—The Administration budget proposes to postpone the annual updating of both the customary and prevailing charge limits for physicians' services that would otherwise occur on July 1, 1983. For the period July 1, 1983 through June 30, 1984, the limits would remain at their current levels. The Administration estimates that this proposal will reduce outlays for fiscal year 1983 by $100 million and the outlays for fiscal year 1984 by $700 million.

5. Reduce hospital cost target rate by one percentage point.—The Administration budget proposes to modify the target rate reimbursement system for hospitals which was established under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). The yearly increase would equal the marketbasket index only, thereby excluding the additional one percentage point currently authorized. The Administration estimates that this proposal will reduce outlays for fiscal year 1984 by $80 million.

6. Modify timing and rate of increase in Part B premium.—The Administration budget proposes to postpone the scheduled July 1, 1983 increase in the monthly Part B premium rate (from the current $12.20 to $13.50) to January 1, 1984 to coincide with a proposed delay in the cost-of-living increase in social security cash benefit payments. For calendar year 1984, the premium would be allowed to increase to the TEFRA-defined level of 25 percent of Part B program costs for the elderly. Beginning in 1985, the premium would be allowed to increase so that the percentage of program costs financed by premiums would increase 2½ percentage points per year with calendar year 1988, when the premium would be set at a rate equal to 35 percent of the costs of the program for the aged. This proposal results in loss of premium income into the Supplementary Medical Insurance Trust Fund in fiscal year 1984. It affects income (i.e., budget authority), but does not impact outlays. The Administration estimates that the revenue lost under the provision during fiscal year 1984 will amount to $368 million.

7. Index Part B deductible.—The Administration budget proposes, beginning in calendar year 1984, to increase the Part B deductible by the same percentage as the increase in the medicare economic index. (This is the index used to set limits on increases in prevailing charges for physicians' services.) The Administration estimates this proposal will reduce outlays for fiscal year 1984 by $50 million.

8. Delay in initial eligibility date for medicare entitlement.—The Administration budget proposes to defer initial eligibility for both Parts A and B of Medicare to the first day of the month following the month the individual reaches age 65. The Administration estimates that this one month delay will reduce outlays for fiscal year 1984 by $215 million ($155 million for Part A and $60 million for Part B).

9. Eliminate mandatory utilization review.—The Administration budget proposes to eliminate the requirement for utilization review in hospitals and skilled nursing facilities. The Administration estimates that this proposal will reduce outlays for fiscal year 1984 by $58 million.

10. Reduce reimbursement to home health agencies for durable medical equipment.—The Administration budget proposes to reimburse home health agencies for durable medical equipment at 80 percent (rather than 100 percent) of reasonable cost. The agencies would be permitted to bill beneficiaries for the remaining 20 percent. The Administration estimates that this proposal will reduce outlays for fiscal year 1984 by $15 million.

11. Competitive procurement of laboratory services, durable medical equipment and other medical supplies.—The Administration budget proposes to employ competitive purchasing procedures for the procurement of laboratory services, durable medical equipment, and other medical supplies. The Administration estimates the proposal will reduce outlays for fiscal year 1984 by $9 million.

12. Eliminate waiver of provider liability for uncovered services.—The Administration budget proposes to eliminate the waiver of liability provision under which payment is made for certain uncovered or medically unnecessary care if the institution could not have known payment would be disallowed. The Administration estimates that this provision will reduce outlays for fiscal year 1984 by $10 million.

13. Program management.—The Administration budget proposes several initiatives including changing the basis for processing medicare hospital claims, eliminate the end-stage renal disease (ESRD) program networks and eliminate a separate Part B contract carrier for the railroad retirement board. The Administration estimates that the claims processing provision will reduce outlays for fiscal year 1984 by $3 million; the elimination of ESRD networks will reduce outlays for fiscal year 1984 by $4.5 million; and the provision relating to the railroad retirement board will reduce outlays by $1.5 million.

14. Increased revenues for hospital insurance.—The Administration budget proposes a number of tax law changes which will result in increased social security tax revenues into the Health Insurance trust fund. These include taxing employee health benefits, applying social security tax to nonprofit organizations, and prohibiting State and local government agencies from dropping out of the Social Security system. The Administration estimates that these proposals will increase revenues to the Hospital Insurance Trust Fund by $322 million in fiscal year 1984.

MEDICAID

The Administration's fiscal year 1984 budget contains several legislative and one regulatory initiative designed to achieve a reduction of $7 million in fiscal year 1983 and $293 million in fiscal year 1984.

Legislative Initiatives

1. Required Cost-Sharing by Medicaid Recipients.—The Administration budget would mandate the imposition of the following copayment amounts:

—For the categorically needy, $1 per visit for physician, clinic, and hospital outpatient department services;

—For the medically needy, $1.50 per visit for physician, clinic, and outpatient department services;

—For the categorically needy, $1 per day for inpatient hospital services;

—For the medically needy, $2 per day for inpatient hospital services.

The Administration estimates that this proposal will reduce Federal outlays by $249 million in fiscal year 1984.

2. Improve third-party collections.—The Administration budget proposes to require, as a condition of medicaid eligibility, that an applicant assign his or her health insurance rights to the State medicaid agency. The Administration estimates that this proposal will reduce outlays in fiscal year 1984 by $6 million.

3. Simplified handling of cross-over claims.—The Administration budget proposes to require that medicare/medicaid claims on behalf of individuals dually eligible for medicare and medicaid, be processed a single time by the medicare carrier. The carrier would make the payment to the provider; the State medicaid agency would make the appropriate payment to the medicare carrier. The Administration estimates that this proposal will reduce outlays for fiscal year 1984 by $1 million.

4. Extend reduction in Federal payments.—The Administration budget proposes to extend indefinitely the existing provisions relating to reductions and offsets in Federal matching payments over the fiscal year 1982–1984 period. The reduction would be 3 percent for fiscal year 1985 and beyond. The Administration estimates that the proposal will have no cost impact in fiscal year 1984; it will reduce outlays in fiscal year 1985 by $525 million.

5. Impact of changes in other program.—The Administration budget is proposing a number of changes in AFDC which will reduce AFDC caseloads. Since medicaid eligibility is linked to eligibility for AFDC, medicaid savings are also anticipated. The Administration budget is also proposing a number of modifications in medicare (primarily increases in required beneficiary cost-sharing charges), which will result in increased medicaid costs on behalf of dual recipients. The Administration estimates reductions in outlays for fiscal year 1984 of $93 million due to AFDC changes. It estimates increases in outlays for fiscal year 1984 of $56 million due to medicare changes.

Regulatory Initiative

1. Third party liability collections.—The Administration budget proposes to require State Child Support Enforcement (CSE) agencies to petition the court to include medical support as part of the child support order whenever health care coverage is available to the absent parent at a reasonable cost. In addition improved information exchange would be required between the CSE and medicaid agencies on the availability of health insurance coverage. The Ad-

ministration estimates that the initiative will reduce outlays for fiscal year 1984 by $89 million.

MATERNAL AND CHILD HEALTH

The Administration is proposing revisions to the Maternal and Child Health Block Grant. No savings are estimated in fiscal year 1984.

Legislative Initiative

1. Revisions to the Maternal and Child Health Block Grant.—The Administration proposes to revise the Maternal and Child Health Block Grant in order to "improve and streamline the administration of that program and to provide greater State flexibility and control over the program." It proposes to:

—Eliminate the Federal set-aside of 10 to 15 percent;

—eliminate the requirement for State matching funds;

—repeal prohibition against States using Federal funds for research or training by a for-profit entity;

—permit States to transfer up to 10 percent of Federal funds to other block grants administered by the Secretary of Health and Human Services (and permit use of funds transferred from other block grants);

—delete requirement for State description of data they intend to collect; require States to describe the criteria and method to be used to distribute funds;

—remove requirements for: State assurances pertaining to application of guidelines with respect to health care assessments and services; use of a portion of block grant funds for specific activities; imposition of charges on others tied to ability to pay, and appropriate coordination with other related programs;

—remove prohibition on imposition of charges for services furnished to low income beneficiaries;

—require States, rather than the Secretary, to determine the form and content of their annual activities reports; but would require States to explain how their previously stated goals and objectives had been met; and

—eliminate requirement that a specific State agency in each State be required to be responsible for the administration of the block grant funds.

CHART 13.—REVENUE SHARING; INTEREST ON THE PUBLIC DEBT

[Dollars in billions]

	FY 1983	FY 1984
Revenue sharing	$4.6	$4.6
Interest	88.9	103.2

Note.—Committee decisions on deficit and debt limit determine estimate.

Chart 13

Revenue Sharing; Interest on the Public Debt

GENERAL REVENUE SHARING

General revenue sharing has been a central part of the Federal Government's efforts to assist local governments. In 1980, Congress approved legislation to extend this program through September 30, 1983. The 1980 extension legislation provided for outlays of $4.6 billion in each of the fiscal years 1981, 1982, and 1983. This amount is distributed to local governments, and represents a reduction of $2.3 billion from the level of funding during the previous entitlement period caused by the elimination of the States from the program on an entitlement basis. Since the inception of general revenue sharing, total payments of approximately $66 billion have been made to local and State governments, covering calendar years 1972 through 1982 and ending with the January 1983 payment.

In extending general revenue sharing through 1983 Congress authorized payments to State governments in fiscal years 1982 and 1983 only if Congress appropriated funds for such payments. In addition, such payments would be contingent on the recipient State government forgoing or returning to the Treasury an equivalent dollar amount in other Federal categorical grant funds. Any State that elected to make this tradeoff would be limited to the amount of revenue sharing funds for which it would be eligible under the existing formula for distributing revenue sharing funds to State governments. The Reagan administration requested no appropriation for a State share in fiscal 1982 or fiscal 1983, and this grant-trading mechanism has not been implemented.

The budget proposes extending general revenue sharing beyond its expiration date of September 30, 1983 at the existing funding level of $4.6 billion going to localities. In addition, as part of a revised Federalism initiative outlined in the administration's budget for fiscal year 1984 and transmitted to Congress on February 24, the entitlement portion of the $3.5 billion community development block grant program would be combined with revenue sharing to form a single program of Federal fiscal assistance to localities. These community development block grant funds presently are allocated by formula to large cities and urban counties, and are designed to provide flexible community and economic development support.

INTEREST ON THE PUBLIC DEBT

Budget outlays for interest on the public debt for fiscal year 1984 are estimated to rise to a level of $144.5 billion from $128.1 billion in fiscal year 1983. These projected increases result from the financing of budget deficits for each of these years and from Federal borrowing to finance off-budget Federal entities.

Net outlays for interest on the public debt, as identified in Chart 13, reflect offsetting payments from the Federal Financing Bank, interest charges by Treasury to Federal agencies and the public, and interest received by trust funds from the Treasury. In previous budgets interest received by trust funds was included in undistributed offsetting receipts. The net outlays for interest on the public debt amount to $88.9 billion in fiscal year 1983 and $103.2 billion in fiscal year 1984. When the committee has completed its decisions on revenues, expenditures, and budget deficits, the appropriate interest figures can be calculated.

It should be noted that the budget assumes that interest rates will continue to decline over the next few years. The interest outlay estimate assumes that the 91-day bill rate will drop gradually from an average of 10.8 percent in calendar year 1982 to 7.9 percent in 1984 and to 6.8 percent by 1986.

Chart 14.—REVENUES: PRESENT LAW

[Dollars in billions]

	FY 1983	FY 1984
Individual income tax	$285.2	$295.6
Corporation income tax	35.3	51.8
Social insurance taxes	210.3	242.9
Excise taxes	37.3	40.4
Estate and gift taxes	6.1	5.9
Customs duties and other receipts	23.3	23.1
Total	597.5	659.7

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Chart 14

Revenues: Present Law

Federal revenues are in large part composed of receipts from income and payroll taxes. The administration budget estimates that in fiscal year 1983 these revenues together with receipts from excise taxes, estate and gift taxes and other revenue sources will yield a total of $597.5 billion under present law. For fiscal year 1984, the administration budget projects a revenue yield of $659.7 billion under present law.

Income taxes paid by individuals are estimated to amount to $295.6 billion for fiscal year 1984. Revenues from this source, the largest single source of Federal revenue, will amount to 44.8 percent of total Federal revenue.

Income taxes paid by corporations are estimated at $51.8 billion for fiscal year 1984. Estimated corporate income tax receipts for 1983 dropped sharply in the administration budget over earlier estimates. This drop is attributable to reduced estimates of corporate profits, which reduced corporations' taxable income.

Social insurance taxes and contributions, composed of social security and other payroll taxes, unemployment insurance taxes and deposits, Federal employee retirement contributions, and premium payments for supplementary medical insurance, are expected to total $242.9 billion. Receipts from these sources in fiscal year 1984 will account for approximately 36.8 percent of the total Federal revenues.

Excise taxes imposed on selected commodities, services, and activities (including crude oil production) are expected to provide $40.4 billion during fiscal year 1984.

Estate and gift taxes imposed on the value of property held at death and on inter vivos transfers of property are projected to produce $5.9 billion during fiscal year 1984.

Customs duties levied on imports, other taxes, and miscellaneous receipts (such as deposits of earnings by the Federal Reserve System) are expected to total $23.1 billion for fiscal year 1984.

Chart 15.—REVENUES: PROPOSED LEGISLATION[1]

[In billions of dollars]

	1983	1984	1985	1986
Tuition tax credit		−0.2	−0.5	−0.8
Enterprise zone tax incentives		−.1	−.4	−.8
Taxation of health insurance premiums		2.3	4.4	6.0
Jobs tax credit	−*	−.2	−.2	−.1
Social security changes [2]		6.1	−3.5	1.5
Higher education tax incentives		−*	−.1	−.2
Subtotal	−*	7.9	2.7	5.6
Contingency tax plan				46.0
Total	−*	7.9	2.7	51.6

*$50 million or less.

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects are taken into account for forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

[2] These revenue estimates are net increases or decreases in budget receipts that will result from the Administration's proposed tax changes in the social security program. These estimates have been supplied by the Department of the Treasury.

[3] The Administration assumes that many of the employee tax credits caused by Old Age and Survivors and Disability Insurance rate increases in fiscal year 1984 will not affect budget receipts until fiscal year 1985.

Chart 15

Revenue: Proposed Legislation

ADMINISTRATION PROPOSALS

A. Substantive Tax Law Changes

The Administration has proposed a variety of changes to the tax code designed to introduce new tax incentives or to change the costs of existing tax incentives. These changes, which are described briefly below, are estimated by the Administration to result in a small decrease in Federal revenues during fiscal year 1983 and a net increase in Federal revenues during fiscal year 1984 and subsequent years. In addition, the Administration has proposed a contingency tax plan which would, if implemented, substantially increase Federal revenues in fiscal year 1986.

Tuition tax credit.—The Administration has proposed a nonrefundable credit for 50 percent of tuition expenses paid to private elementary and secondary schools for certain qualified dependent taxpayers. The maximum credit allowable for each dependent is $100 in 1983, $200 in 1984, and $300 thereafter, with the maximum amount in each year phased out for taxpayers with incomes between $40,000 and $60,000. Credits would not be allowed for expenses paid to private schools which follow a racially discriminatory policy. This proposal would be effective for expenses incurred after July 31, 1983, and is estimated by the Administration to reduce budget receipts by $0.2 billion in fiscal year 1984.

Enterprise zone program.—Under current law the only tax incentive specifically designed for redevelopment of economically distressed areas is a relaxation of limitations on tax-exempt financing for facilities receiving assistance under the Urban Development Action Grant program. The Administration has proposed that, beginning in fiscal year 1983, up to 25 small areas per year (not to exceed 75 in total) be designated as "enterprise zones" within which Federal tax and other incentives would be provided. Starting in 1984, businesses in the zones would be entitled to exemptions from tax for certain capital gains, and to tax credits for capital investment, for increases in employment, and for hiring disadvantaged employees. A tax credit also would be provided to employees in the zones. The tax incentives generally would be effective January 1, 1984. This proposal is estimated by the Administration to reduce budget receipts in fiscal year 1984 by $0.1 billion.

Tax treatment of health insurance premiums.—Under current law, compensation paid in cash is fully taxable for both social security tax and income tax purposes, while compensation paid in the form of health insurance benefits is generally nontaxable if certain conditions are met. The Administration has proposed that, effective January 1, 1984, employees be taxed on employer-paid health in-

surance premiums in excess of $175 per month for family plans and $70 per month for individual plans. This proposal is estimated by the Administration to increase budget receipts by $2.3 billion in fiscal year 1984.

Jobs tax credit for the long-term unemployed.—Under current law, no special tax incentives are provided to employers who hire individuals after they have experienced a long term of unemployment. Effective April 1, 1983, the Administration has proposed a new tax credit for employers that hire individuals who have exhausted their regular and extended unemployment insurance benefits and who would have met the criteria for Federal supplemental compensation benefits. This proposal is estimated by the Administration to reduce budget receipts by a negligible amount in fiscal year 1983, and $0.2 billion in 1984.

Social Security Changes.—At present, social security benefits are exempt from the Federal income tax. Under the proposed plan, single taxpayers with more than $20,000 ($25,000 for married couples filing a joint return) of adjusted gross income from non-social security sources would be required to include in adjusted gross income one-half of their social security benefits.

In addition, the combined employer-employee Old Age and Survivors and Disability Insurance payroll tax rate is currently scheduled to increase from 10.8 percent to 11.4 percent on January 1, 1985 and to 12.4 percent on January 1, 1990. Under the proposed plan, the rate would increase to 11.4 percent on January 1, 1984, 12.12 percent on January 1, 1988 and to 12.4 percent (as currently scheduled) on January 1, 1990. Employees would be allowed a refundable credit on their income tax equal to their portion, 0.3 percent, of the rate increase accelerated to 1984. The proposal is estimated by the Administration to result in a $6.1 billion net increase in budget receipts in fiscal year 1984. A discussion of each provision of the National Commission on Social Security Reform consensus package is included in chart 5.

Higher education tax incentives.—The Administration has proposed that there be an exclusion from tax for earnings on savings deposited in special accounts to pay future higher educational expenses of dependent children. This exclusion, which will be subject to certain limitations, will be effective January 1, 1984. This proposal is estimated by the Administration to reduce budget receipts by a negligible amount in fiscal year 1984.

B. Contingency Tax Plan

The Administration has proposed a contingency tax plan which will not affect Federal revenues until fiscal year 1986. The plan is designed as a stand-by measure to insure that budget deficits for fiscal years 1986 and beyond will be reduced. The plan has two components which are briefly described below.

Individual and corporate income tax surcharge.—Under current law, the income of both individuals and corporations is subject to graduated tax rates. The Administration has proposed an additional surcharge tax of 5 percent on taxes paid by individuals and corporations.

Oil excise tax.—Under current law, domestically produced oil is subject to the Crude Oil Windfall Profits Tax and certain environ-

mental taxes, and imported oil is subject to import duties and certain environmental taxes. The Administration has proposed an excise tax of $5 per barrel on both domestically produced and imported oil.

The contingency taxes will become effective October 1, 1985, only if three conditions are met: (1) Congress adopts the Adminstration's spending reductions and structural reforms of Federal entitlement programs; (2) the unified budget deficit for fiscal year 1986 is forecasted by the Administration, on July 1, 1985, to be above two and one-half percent of GNP; and (3) on July 1, 1985, the economy is growing.

If the contingency taxes become effective, they will remain in place for up to 36 months. The contingency plan will not affect budget receipts in fiscal year 1984.

C. User Fees

The Administration has proposed a variety of measures to recover the cost of direct and indirect services provided by the Federal Government to identifiable groups of business and private users. The proposal would increase or institute new categories of user fees. A few examples are briefly described below. For budget purposes, the Administration has classified most of these fees as proprietary receipts and has offset the expected savings against outlays in certain specific Federal agencies. The Finance Committee will have jurisdiction over any fee recovery proposal that can be classified as a tax.

Coast Guard user fees.—The Administration has proposed to assess fees on commercial and recreational boating to offset the cost of selected Coast Guard services in fiscal years 1983 and 1984.

Corps of Engineers navigation user fees.—Beginning in 1983, the Administration has proposed to increase fees paid by commercial vessels using the inland waterways and the deep draft channels and harbors.

D. Other Administration Proposals

The Administration has indicated additional areas in which it will propose legislation affecting Federal revenue receipts in fiscal years 1983 and 1984.

Caribbean Basin initiative.—Under current law, expenses incurred in attending business conventions outside of the North American area are deductible only if it is as reasonable to hold the convention outside the North American area as within it. In addition, only taxes collected on rum produced in Puerto Rico or the U.S. Virgin Islands and transported to the United States are transferred to Puerto Rico or the U.S. Virgin Islands. The Caribbean Basin Initiative contains a two-part tax incentive package: (1) the allowance of U.S. income tax deductions for certain convention expenses in order to promote tourism in the Caribbean Basin, and (2) a tax transfer provision to insure that Puerto Rico and the U.S. Virgin Islands do not lose tax revenue on their rum shipments to the United States as a result of duty-free treatment of Caribbean Basin rum. The proposal is estimated by the Administration to reduce budget receipts by a negligible amount in fiscal years 1983 and 1984.

Federalism initiative.—The Administration has proposed a federalism initiative which provides for the eventual transfer of revenue sources to States and localities as they assume responsibility for programs that are now administered and funded by the Federal Government. During the first phase of this initiative (1984–1987), some existing excise taxes would be dedicated to a special fund. This fund would be used to continue interim financing of the programs selected to be returned to the States and localities, or would provide payments to the States equal to the cost of these programs. The choice would be made by the States. The establishment of this fund is estimated by the Administration to have no effect on Federal revenues.

Contributions to civil service retirement.—The Administration has proposed legislation to make several changes in employer and employee contributions to civil service retirement to ensure that employers and employees each pay 50 percent of retirement costs. Historically, the committee has not asserted its jurisdiction over legislation to make changes in employer and employee contributions to civil service retirement. However, the committee maintains its jurisdiction over all tax-qualified pension plans.

OTHER PROPOSALS

Both the Administration and several members of the committee have indicated interest in a variety of additional tax proposals which would have their initial impact on revenues in fiscal years 1983 and 1984. Among these proposals are improvements in tax equity and compliance, income tax base-broadening measures, flat rate tax, insurance company taxation, taxation of newly discovered oil under the Crude Oil Windfall Profit tax, job-creation programs, and tax reform in the areas of domestic relations, corporate taxes generally, and Domestic International Sales Corporations. Some committee members have also expressed an interest in delaying the effective date or modifying the third individual rate reduction and modifying or repealing the 1985 indexing provision enacted in the Economic Recovery Tax Act.

The committee may also wish to consider certain tax provisions which expire at the end of 1983, including the authority to issue tax-exempt mortgage revenue bonds, the moratorium on fringe benefit regulations, and the special bank loan loss reserve provision in the Economic Recovery Tax Act.

The committee may also consider a variety of other proposals affecting individual and corporate taxation.

Allowance for minor income tax and tariff bills.—The budget resolutions set an overall floor on revenues and this floor is, after the second resolution, enforceable by points of order. While this procedure is intended to provide budgetary control over major revenue changes, it also applies to bills which have only a very minor revenue impact but may be important for other reasons, such as tariff bills or bills designed to correct inequities in the treatment of taxpayers.

In order to avoid unduly restricting the flexibility of the Senate to consider such measures, the committee has in the past recommended that an allowance of $0.1 billion for minor tax and tariff

legislation be incorporated into whatever revenue levels are established in the budget resolution.

Chart 16.—TAX EXPENDITURES: PRESENT LAW

[Dollars in billions]

	FY 1983	FY 1984
Commerce and housing credit	92.3	96.9
Income security	87.2	95.7
General purpose fiscal assistance	29.3	32.0
Education, training employment, and social services	12.9	13.6
Health	23.8	26.2
Energy	5.2	4.8
International affairs	2.7	2.4
Other tax expenditures	8.8	8.9
Total	262.2	280.5

Chart 16

Tax Expenditures: Present Law

The concept of tax expenditures was developed in order to compare the Federal Government's outlays to the budgetary impact of various deductions, deferrals, and credits in the tax structure. It was intended that, with this information, consideration of the budget might involve examination of both direct and tax expenditures as alternate means of providing incentives.

The Budget Act defines a tax expenditure as the revenue loss arising from special exemptions, exclusions, or deductions from gross income, a special credit, a preferential rate of tax, or a deferral of tax. In general, the concept is intended to identify provisions in the tax law which either encourage certain behavior or compensate for specific hardship. The term encompasses tax provisions of limited applicability which are exceptions to provisions of more general applicability considered necessary to make the tax system function.

This definition of "tax expenditure" is imprecise. The imprecision in definition, as well as a possible implication that the Government has a pre-eminent right to all income, has resulted in substantial controversy. Because of the difficulty of achieving precision, the staff approach has been to be as comprehensive as is reasonable in deciding whether a provision should be included as a tax expenditure item, and has included all items listed as tax expenditures by the Administration. A listing of a provision as a "tax expenditure" here is not intended to imply approval or disapproval, or judgment about the effectiveness, of any provision. A listing simply reflects present law and, by implication, present public policy.

The chart presents a summary of tax expenditures by budget functional category and estimates of their revenue effects. The table containing the estimates presented by the Administration as a special analysis in the 1984 budget is reproduced as appendix C of this document.

If the various tax expenditures figures in the two columns were added they would total $262.2 billion in fiscal year 1983 and $280.5 billion in fiscal year 1984. However, simple addition of the separate items, even in functional categories, may not accurately reflect revenue loss. The revenue estimates are made with the assumption that only one item was repealed. If two or more changes were made at the same time, there could be interaction effects. For example, an affected taxpayer could be forced into a higher tax bracket than if only one change were made. Thus, the combined revenue impact would be different from the sum of the separate revenue estimates. Furthermore, some taxpayers have the choice of using other tax expenditures if they want to reduce their tax liability. Other taxpayers would be required to pay higher taxes, absent existence of a tax expenditure provision. These possibilities are not reflected by a simple totaling of separate items.

Chart 17.—DEBT LIMIT

[Dollars in billions]

Temporary debt limit through Sept. 30, 1983	$1,290.2
Reagan administration estimate of debt subject to limit Sept. 30, 1982	1,379.9
Plus:	
Federal funds deficit for FY 1984	205.7
Off-budget agency spending financed by Treasury	14.0
Other financing	3.0
Equals:	
Debt subject to limit, Sept. 30, 1984	1,602.6

Chart 17

Debt Limit

Under existing law, the debt limit is $1,290.2 billion until September 30, 1983. The temporary limit expires on September 30, 1983. In the absence of further legislation, the debt ceiling would decline on that date to its permanent level of $400 billion. The Reagan Administration estimates that legislation will be needed to change the limit on the public debt before that time.

For fiscal year 1984 the Reagan Administration assumes that the debt subject to limit would reach $1,602.6 billion on September 30, 1984. Underlying those estimates are the legislative proposals to reduce the Federal deficit outlined in the fiscal year 1984 budget proposed by the Administration and reductions in borrowing by off-budget Federal entities. The economic assumptions set forth in the fiscal year 1984 budget also determine the estimates of the debt subject to limit.

The fiscal year 1984 needs as estimated by the Administration include issue of debt by the Federal Financing Bank under the debt limit on behalf of various agency programs and several agencies whose activities are not included in the budget totals. In general, trust fund surpluses are invested in Government securities and therefore do not serve to reduce the debt subject to limit even though they do reduce the unified budget deficit.

APPENDIX A

Committee on Finance 1982 Report to the Budget Committee With Respect to Fiscal Year 1983

U.S. SENATE,
COMMITTEE ON FINANCE
Washington, D.C., March 4, 1982.

Hon. PETE V. DOMENICI,
Chairman, Committee on the Budget,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Finance on those aspects of the Federal budget for fiscal year 1983 that fall within the Committee's jurisdiction as is required by section 301(c) of the Congressional Budget Act of 1974.

Economic assumptions.—Many of the components which make up the budget totals are highly sensitive to relatively slight changes in economic conditions. The economic assumptions underlying the budget are presented on pages 2-1 to 2-16 of the Administration's fiscal year 1983 budget. For purposes of the first concurent resolution on the budget, the Finance Committee accepted these assumptions.

While the Administration's economic assumptions have been used as a basis for estimating revenues, unemployment compensation, social security benefits and other programs under Finance Committee jurisdiction, we recognize that there are alternative economic assumptions which might reasonably be supported. If the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in the revenue and outlay estimates.

Committee recommendations.—The Finance Committee believes that it can reduce the fiscal year 1983 deficit by at least as much as the President's budget. It may raise more revenue than the President proposed and cut spending less or it may cut spending more and increase revenue less. Alternatively it may both cut more spending than the President's budget and increase revenue more than his budget. In this letter we are merely stating that we hope to report legislation that reduces the deficit by at least as much as the President's budget.

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Table 1.—FINANCE COMMITTEE FORWARDS RECOMMENDATIONS OF THE PRESIDENT CONCERNING BUDGET AUTHORITY AND OUTLAYS UNDER COMMITTEE JURISDICTION: FISCAL YEAR 1983

[In billions of dollars]

Functional category	Budget authority	Outlays
500—Education, training, employment, and social services	3.4	3.4
New legislation	−.6	−.6
550—Health	82.6	77.4
New legislation	−.9	−3.8
600—Income security	205.9	213.5
New legislation	−2.1	−2.1
850—General purpose fiscal assistance	4.9	4.9
900—Interest	133.2	133.2
New legislation	−.3	−.3

Expenditure programs.—The Committee on Finance has jurisdiction over a variety of programs which involve expenditures. These include such income maintenance programs as social security, supplemental security income, unemployment compensation, and welfare programs for families. Health programs under Finance Committee jurisdiction include Medicare, Medicaid, and maternal and child health, as well as national health insurance proposals. Other programs, within the committee's jurisdiction which involve the expenditure of Federal funds include social services and revenue sharing. Interest on the public debt, which on a gross basis will account for some $132.9 billion in Federal outlays during the coming fiscal year, also falls under the jurisdiction of the Committee on Finance.

The Committee on Finance has reviewed the Administration's expenditure reduction proposals within its jurisdiction and voted to forward these proposals listed by budget function to the Budget Committee, without endorsement of any specific proposal or functional totals.

Education, training, employment, and social services.—In this category, there are several programs under the jurisdiction of the Committee on Finance including the general social services program under title XX of the Social Security Act, the child welfare services program, and the work incentive program (WIN) for employable recipients of aid to families with dependent children. The Administration recommends that the congressional budget for fiscal year 1983 assume that net outlay reductions totaling $0.6 billion will be achieved in this function.

Health.—The Committee on Finance has jurisdiction over the Medicare, Medicaid, and maternal and child health programs. The Administration recommends that the congressional budget for fiscal year 1983 assume that net outlay reductions totaling $3.8 billion will be achieved in the health function.

Income security.—In the income security function of the budget, the Committee on Finance has jurisdiction over the basic national social insurance and public assistance programs. The major pro-

grams involved are old-age, survivors, and disability insurance, supplemental security income for the aged, blind, and disabled, aid to families with dependent children, and unemployment compensation. Under the revised budget conventions adopted in 1978, the refundable aspects of tax credits are now treated as expenditure items. As a result, the income security category estimates now include the refundable part of the earned income tax credit. The Administration recommends that the congressional budget for fiscal year 1983 assume that net outlay reductions of $2.1 billion will be achieved in the income security function.

General purpose fiscal assistance.—This function of the budget includes general revenue sharing, and other items such as payments to Puerto Rico of amounts equal to certain tax collections. The general revenue sharing program has been extended through fiscal year 1983. The Administration recommends that $4.9 billion be included in the fiscal year 1983 budget for this function.

Interest.—The interest function in the budget includes interest on the public debt, interest payments on certain tax refunds, and certain offsetting interest receipts. The committee estimates that present law, as modified by legislation proposed in the President's budget, will involve gross interest payments of $132.9 billion and net interest payments of $112.5 billion.

Table 2.—FINANCE COMMITTEE FORWARDS THE ADMINISTRATION'S REVENUE RECOMMENDATIONS: FISCAL YEAR 1983

	Billions
Present law	$653.3
New legislation (net)	12.8
Present law and legislation	666.1

Revenues.—The different types of Federal revenues include individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, and customs duties. For purposes of this report, all Federal receipts have been treated as revenues; those receipts in the President's budget which do not fall within the Finance Committee's jurisdiction have been accepted without change.

The President's budget for fiscal year 1983 estimates total revenues of $666.1 billion. The President's recommendation contemplates a $12.8 billion net increase in revenues from current law. The Committee on Finance has reviewed the Administration's revenue-raising proposals within its jurisdiction and voted to forward these proposals to the Budget Committee, without endorsement of any specific proposal or the overall revenue total.

Any final estimate of expected revenues should include an allowance to cover minor tax and tariff legislation. The committee notes that setting a budget resolution revenue total at exactly the level of expected revenues could result in an unfortunate procedural barrier to the consideration of minor tax and tariff bills which have only negligible revenue implications. While such bills have essen-

tially no budgetary impact, they are technically inconsistent with the budget resolution (and after the second budget resolution may be subject to a point of order). To deal with this situation, the Committee on Finance strongly recommends that the revenue total in the budget resolution be set at a level $0.1 billion below the level of revenues otherwise anticipated.

Budget deficit.—Table 3 shows the overall budgetary impact of the Administration's recommendations concerning the fiscal year 1983 congressional budget resolution.

Table 3.—BUDGETARY IMPACT OF ADMINISTRATION'S RECOMMENDATIONS

[In billions of dollars]

	Revenues	Outlays	Deficit
Present law	$653.3	$799.0	$145.6
Administration recommendations	666.1	757.6	91.5

Public debt limit.—The permanent debt limit under existing law is $400 billion. In addition, there is a temporary debt limit in effect which brings the overall limit to $1,079.8 billion. This temporary limit expires on September 30, 1982 and in the absence of further legislation the debt ceiling would decline to the $400 billion permanent level. The projected deficit for fiscal year 1983 will increase the debt subject to limit to a level of $1,254.3 billion on the basis of the President's budget. The Budget Committee may find it necessary to adjust the debt limit estimates to take account of any other appropriate adjustments to the estimates in the budget for programs not within the jurisdiction of the Committee on Finance.

TABLE 4.—PUBLIC DEBT LIMIT ESTIMATES IN PRESIDENT'S BUDGET

	Billions
Estimated debt subject to limit as of Sept. 30, 1981	$1,079.8
Administration's estimate of debt subject to limit Sept. 30, 1982	1,130.0
Plus:	
Federal funds deficit for fiscal year 1983	106.9
Off-budget agency spending financed by Treasury and other financing	17.4
Equals: Debt subject to limit as of Sept. 30, 1983	1,254.3

Tax expenditures.—The Congressional Budget Act of 1974 defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In the committee's view, the question of whether a given revenue provision represents a special or a normal application of tax policy is one which in many instances cannot be objectively resolved. For this reason, the committee feels that the only way in which it can

comply with the Budget Act's requirement that it present its estimates with respect to tax expenditures is by listing all items which have been so designated in the President's budget. In doing so, however, the committee does not either endorse or reject the contention that any or all of these items designated as tax expenditures represent a departure from normal tax policy.

For the reason stated above, the Finance Committee simply transmits as its report the tax expenditure listing included in Special Analysis G of the President's budget.

Five-year budgetary outlook.—The magnitude and timing of savings or expenditures which may result from changes in the law to be recommended by the committee during the upcoming session of the Congress will depend heavily on the exact nature of each specific legislative change. This result is arrived at only after the entire process of substantive consideration by the committee and the Congress. Moreover, budgetary estimates presented in this letter are net amounts which may ultimately be achieved through a combination of legislative changes involving both increased costs in some cases and cost reductions in others.

Similarly, the revenue estimate for the coming fiscal year is a net figure whose detailed composition and future year impact can be determined only after the committee has completed the legislative consideration of various competing proposals. Its goals will be established which vary from year to year depending upon the changing economic needs and conditions of the country.

The committee recognizes that the Congressional Budget Act requires the Budget Committees to undertake an analysis of the five-year budgetary outlook and include projections in their reports on the budget resolution. This is a useful and appropriate element in congressional consideration of broad budgetary perspectives. However, for the reasons cited above, the committee believes that an attempt by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the Standing Rules of the Senate properly impose on substantive committees the obligation to make such projections when they have completed legislative consideration and are reporting a measure to the Senate.

To assist the Budget Committee in carrying out its responsibilities for long-range projections, I am enclosing a copy of Finance Committee Print 97-11 which includes present law projections of certain trust fund programs (see pages 16 and 54-55). Present law revenue projections appear in the Administration's fiscal year 1983 budget on page 4-2.

The Finance Committee staff is available to answer any additional questions you may have on these estimates.

Sincerely yours,

BOB DOLE, *Chairman.*

APPENDIX B

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

TITLE III—CONGRESSIONAL BUDGET PROCESS

TIMETABLE

31 USC 1321.

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

ADOPTION OF FIRST CONCURRENT RESOLUTION

31 USC 1322.

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

Contents.

(1) the appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; and

(6) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providing new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both; and

(2) any other procedure which is considered appropriate to carry out the purposes of this Act.

Report to Congress.

Not later than the close of the Ninety-fifth Congress, the Committee on the Budget of each House shall report to its House on the implementation of procedures described in this subsection.

Submittal to congressional committees.

(c) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House, each standing committee of the Senate shall submit to the Committee on the Budget of the Senate, and the Joint Economic Committee and Joint Committee on Internal Revenue Taxation shall submit to the Committees on the Budget of both Houses—

(1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and

(2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

60 Stat. 23. 15 USC 1021 note.

The Joint Economic Committee shall also submit to the Committees on the Budget of both Houses, its recommendations as to the fiscal policy appropriate to the goals of the Employment Act of 1946. Any other committee of the House or Senate may submit to the Committee on the Budget of its House, and any other joint committee of the Congress may submit to the Committees on the Budget of both Houses, its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within its jurisdiction or functions.

Concurrent resolution, development.

(d) HEARINGS AND REPORT.—In developing the first concurrent resolution on the budget referred to in subsection (a) for each fiscal year, the Committee on the Budget of each House shall hold hearings and shall receive testimony from Members of Congress and such appropriate representatives of Federal departments and agencies, the general public, and national organizations as the committee deems desirable.

Report to Congress.

On or before April 15 of each year, the Committee on the Budget of each House shall report to its House the first concurrent resolution on the budget referred to in subsection (a) for the fiscal year beginning on October 1 of such year.

Contents.

The report accompanying such concurrent resolution shall include, but not be limited to—

(1) a comparison of revenues estimated by the committee with those estimated in the budget submitted by the President;

(2) a comparison of the appropriate levels of total budget outlays and total new budget authority, as set forth in such concurrent resolution, with total budget outlays estimated and total new budget authority requested in the budget submitted by the President;

(3) with respect to each major functional category, an estimate of budget outlays and an appropriate level of new budget authority for all proposed programs and for all existing programs (including renewals thereof), with the estimate and level for existing programs being divided between permanent authority and funds provided in appropriation Acts, and each such division being subdivided between controllable amounts and all other amounts;

(4) an allocation of the level of Federal revenues recommended in the concurrent resolution among the major sources of such revenues;

(5) the economic assumptions and objectives which underlie each of the matters set forth in such concurrent resolution and alternative economic assumptions and objectives which the committee considered;

(6) projections, not limited to the following, for the period of five fiscal years beginning with such fiscal year of the estimated levels of total budget outlays, total new budget outlays, total new budget authority, the estimated revenues to be received, and the estimated surplus or deficit, if any, for each fiscal year in such period, and the estimated levels of tax expenditures (the tax expenditures budget) by major functional categories;

(7) a statement of any significant changes in the proposed levels of Federal assistance to State and local governments; and

(8) information, data, and comparisons indicating the manner in which, and the basis on which, the committee determined each of the matters set forth in the concurrent resolution, and the relationship of such matters to other budget categories.

MATTERS TO BE INCLUDED IN JOINT STATEMENT OF MANAGERS; REPORTS BY COMMITTEES

31 USC 1323.

SEC. 302. (a) ALLOCATION OF TOTALS.—The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays and total new budget authority among each committee of the House of Representatives and the Senate which has jurisdiction over bills and resolutions providing such new budget authority.

Subdivisions.

(b) REPORTS BY COMMITTEES.—As soon as practicable after a concurrent resolution on the budget is agreed to—

(1) the Committee on Appropriations of each House shall, after consulting with the Committee on Appropriations of the other House, (A) subdivide among its subcommittees the allocation of budget outlays and new budget authority allocated to it in the joint explanatory statement accompanying the conference report on such concurrent resolution, and (B) further subdivide the amount with respect to each such subcommittee between controllable amounts and all other amounts; and

(2) every other committee of the House and Senate to which an allocation was made in such joint explanatory statement shall, after consulting with the committee or committees of the other House to which all or part of its allocation was made, (A) subdivide such allocation among its subcommittees or among programs over which it has jurisdiction, and (B) further subdivide the amount with respect to each subcommittee or program between controllable amounts and all other amounts.

Each such committee shall promptly report to its House the subdivisions made by it pursuant to this subsection.

Congressional committees' report of subdivisions.

(c) SUBSEQUENT CONCURRENT RESOLUTIONS.—In the case of a concurrent resolution on the budget referred to in section 304 or 310, the allocation under subsection (a) and the subdivisions under subsection (b) shall be required only to the extent necessary to take into account revisions made in the most recently agreed to concurrent resolution on the budget.

FIRST CONCURRENT RESOLUTION ON THE BUDGET MUST BE ADOPTED BEFORE LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, OR CHANGES IN REVENUES OR PUBLIC DEBT LIMIT IS CONSIDERED

SEC. 303. (a) IN GENERAL.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution (or amendment thereto) which provides— 31 USC 1324.

(1) new budget authority for a fiscal year;

(2) an increase or decrease in revenues to become effective during a fiscal year;

(3) an increase or decrease in the public debt limit to become effective during a fiscal year; or

(4) new spending authority described in section 401(c)(2)(C) to become effective during a fiscal year;

until the first concurrent resolution on the budget for such year has been agreed to pursuant to section 301.

(b) EXCEPTIONS.—Subsection (a) does not apply to any bill or resolution—

(1) providing new budget authority which first becomes available in a fiscal year following the fiscal year to which the concurrent resolution applies; or

(2) increasing or decreasing revenues which first become effective in a fiscal year following the fiscal year to which the concurrent resolution applies.

(c) WAIVER IN THE SENATE.—

(1) The committee of the Senate which reports any bill or resolution to which subsection (a) applies may at or after the time it reports such bill or resolution, report a resolution to the Senate (A) providing for the waiver of subsection (a) with respect to such bill or resolution, and (B) stating the reasons why the waiver is necessary. The resolution shall then be referred to the Committee on the Budget of the Senate. That committee shall report the resolution to the Senate within 10 days after the resolution is referred to it (not counting any day on which the Senate is not in session) beginning with the day following the day on which it is so referred, accompanied by that committee's recommendations and reasons for such recommendations with respect to the resolution. If the committee does not report the resolution within such 10-day period, it shall automatically be discharged from further consideration of the resolution and the resolution shall be placed on the calendar.

Resolution referral. Report to Senate.

(2) During the consideration of any such resolution, debate shall be limited to one hour, to be equally divided between, and controlled by, the majority leader and minority leader or their designees, and the time on any debatable motion or appeal shall be limited to twenty minutes, to be equally divided between, and controlled by, the mover and the manager of the resolution. In the event the manager of the resolution is in favor of any such motion

Debate, time limitation.

or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. Such leaders, or either of them, may, from the time under their control on the passage of such resolution, allot additional time to any Senator during the consideration of any debatable motion or appeal. No amendment to the resolution is in order.

(3) If, after the Committee on the Budget has reported (or been discharged from further consideration of) the resolution, the Senate agrees to the resolution, then subsection (a) of this section shall not apply with respect to the bill or resolution to which the resolution so agreed to applies.

PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS OF THE BUDGET

31 USC 1325.

SEC. 304. At any time after the first concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301, and before the end of such fiscal year, the two Houses may adopt a concurrent resolution on the budget which revises the concurrent resolution on the budget for such fiscal year most recently agreed to.

PROVISIONS RELATING TO THE CONSIDERATION OF CONCURRENT RESOLUTIONS ON THE BUDGET

31 USC 1326.

SEC. 305. (a) PROCEDURE IN HOUSE OF REPRESENTATIVES AFTER REPORT OF COMMITTEE; DEBATE.—

(1) When the Committee on the Budget of the House has reported any concurrent resolution on the budget, it is in order at any time after the tenth day (excluding Saturdays, Sundays, and legal holidays) following the day on which the report upon such resolution has been available to Members of the House (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of the concurrent resolution. The motion is highly privileged and is not debatable. An amendment to the motion is not in order, and it is not in order to move to reconsider the vote by which the motion is agreed to or disagreed to.

Debate, time limitation.

(2) General debate on any concurrent resolution on the budget in the House of Representatives shall be limited to not more than 10 hours, which shall be divided equally between the majority and minority parties. A motion further to limit debate is not debatable. A motion to recommit the concurrent resolution is not in order, and it is not in order to move to reconsider the vote by which the concurrent resolution is agreed to or disagreed to.

(3) Consideration of any concurrent resolution on the budget by the House of Representatives shall be in the Committee of the Whole, and the resolution shall be read for amendment under the five-minute rule in accordance with the applicable provisions of rule XXIII of the Rules of the House of Representatives. After the Committee rises and reports the resolution back to the House, the previous question shall be considered as ordered on the resolution and any amendments thereto to final passage without intervening motion; except that it shall be in order at any time prior to final passage (notwithstanding any other rule or provision of law) to adopt an amendment (or a series of amendments) changing any figure or figures in the resolution as so reported to the extent necessary to achieve mathematical consistency.

(4) Debate in the House of Representatives on the conference report on any concurrent resolution on the budget shall be limited to not more than 5 hours, which shall be divided equally between the majority and minority parties. A motion further to limit debate is not debatable. A motion to recommit the conference report is not in order, and it is not in order to move to reconsider the vote by which the conference report is agreed to or disagreed to. Debate, time limitation.

(5) Motions to postpone, made with respect to the consideration of any concurrent resolution on the budget, and motions to proceed to the consideration of other business, shall be decided without debate.

(6) Appeals from the decisions of the Chair relating to the application of the Rules of the House of Representatives to the procedure relating to any concurrent resolution on the budget shall be decided without debate.

(b) PROCEDURE IN SENATE AFTER REPORT OF COMMITTEE; DEBATE; AMENDMENTS.—

(1) Debate in the Senate on any concurrent resolution on the budget, and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 50 hours, except that, with respect to the second required concurrent resolution referred to in section 310(a), all such debate shall be limited to not more than 15 hours. The time shall be equally divided between, and controlled by, the majority leader and the minority leader or their designees. Debate, time limitation.

(2) Debate in the Senate on any amendment to a concurrent resolution on the budget shall be limited to 2 hours, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution, and debate on any amendment to an amendment, debatable motion, or appeal shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution, except that in the event the manager of the concurrent resolution is in favor of any such amendment, motion, or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. No amendment that is not germane to the provisions of such concurrent resolution shall be received. Such leaders, or either of them, may, from the time under their control on the passage of the concurrent resolution, allot additional time to any Senator during the consideration of any amendment, debatable motion, or appeal.

(3) A motion to further limit debate is not debatable. A motion to recommit (except a motion to recommit with instructions to report back within a specified number of days, not to exceed 3, not counting any day on which the Senate is not in session) is not in order. Debate on any such motion to recommit shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution.

(4) Notwithstanding any other rule, an amendment, or series of amendments, to a concurrent resolution on the budget proposed in the Senate shall always be in order if such amendment or series of amendments proposes to change any figure or figures then contained in such concurrent resolution so as to make such concurrent resolution mathematically consistent or so as to maintain such consistency.

(c) ACTION ON CONFERENCE REPORTS IN THE SENATE.—

(1) The conference report on any concurrent resolution on the budget shall be in order in the Senate at any time after the third day (excluding Saturdays, Sundays, and legal holidays) following the day on which such a conference report is reported and is available to Members of the Senate. A motion to proceed to the consideration of the conference report may be made even though a previous motion to the same effect has been disagreed to.

Debate, time limitation.

(2) During the consideration in the Senate of the conference report on any concurrent resolution on the budget, debate shall be limited to 10 hours, to be equally divided between, and controlled by, the majority leader and minority leader or their designees. Debate on any debatable motion or appeal related to the conference report shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the conference report.

(3) Should the conference report be defeated, debate on any request for a new conference and the appointment of conferees shall be limited to 1 hour, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee, and should any motion be made to instruct the conferees before the conferees are named, debate on such motion shall be limited to one-half hour, to be equally divided between, and controlled by, the mover and the manager of the conference report. Debate on any amendment to any such instructions shall be limited to 20 minutes, to be equally divided between and controlled by the mover and the manager of the conference report. In all cases when the manager of the conference report is in favor of any motion, appeal, or amendment, the time in opposition shall be under the control of the minority leader or his designee.

(4) In any case in which there are amendments in disagreement, time on each amendment shall be limited to 30 minutes, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee. No amendment that is not germane to the provisions of such amendments shall be received.

Conference report, submittal to Congress.

(d) REQUIRED ACTION BY CONFERENCE COMMITTEE.—If, at the end of 7 days (excluding Saturdays, Sundays, and legal holidays) after the conferees of both Houses have been appointed to a committee of conference on a concurrent resolution on the budget, the conferees are unable to reach agreement with respect to all matters in disagreement between the two Houses, then the conferees shall submit to their respective Houses, on the first day thereafter on which their House is in session—

(1) a conference report recommending those matters on which they have agreed and reporting in disagreement those matters on which they have not agreed; or

(2) a conference report in disagreement, if the matter in disagreement is an amendment which strikes out the entire text of the concurrent resolution and inserts a substitute text.

(e) CONCURRENT RESOLUTION MUST BE CONSISTENT IN THE SENATE.—It shall not be in order in the Senate to vote on the question of agreeing to—

(1) a concurrent resolution on the budget unless the figures then contained in such resolution are mathematically consistent; or

(2) a conference report on a concurrent resolution on the budget unless the figures contained in such resolution, as recommended in such conference report, are mathematically consistent.

LEGISLATION DEALING WITH CONGRESSIONAL BUDGET MUST BE HANDLED BY BUDGET COMMITTEES

SEC. 306. No bill or resolution, and no amendment to any bill or resolution, dealing with any matter which is within the jurisdiction of the Committee on the Budget of either House shall be considered in that House unless it is a bill or resolution which has been reported by the Committee on the Budget of that House (or from the consideration of which such committee has been discharged) or unless it is an amendment to such a bill or resolution. 31 USC 1327.

HOUSE COMMITTEE ACTION ON ALL APPROPRIATION BILLS TO BE COMPLETED BEFORE FIRST APPROPRIATION BILL IS REPORTED

SEC. 307. Prior to reporting the first regular appropriation bill for each fiscal year, the Committee on Appropriations of the House of Representatives shall, to the extent practicable, complete subcommittee markup and full committee action on all regular appropriation bills for that year and submit to the House a summary report comparing the committee's recommendations with the appropriate levels of budget outlays and new budget authority as set forth in the most recently agreed to concurrent resolution on the budget for that year. 31 USC 1328. Summary report, submittal to House.

REPORTS, SUMMARIES, AND PROJECTIONS OF CONGRESSIONAL BUDGET ACTIONS

SEC. 308. (a) REPORTS ON LEGISLATION PROVIDING NEW BUDGET AUTHORITY OR TAX EXPENDITURES.—Whenever a committee of either House reports a bill or resolution to its House providing new budget authority (other than continuing appropriations) or new or increased tax expenditures for a fiscal year, the report accompanying that bill or resolution shall contain a statement, prepared after consultation with the Director of the Congressional Budget Office, detailing— 31 USC 1329. Contents.

(1) in the case of a bill or resolution providing new budget authority—

(A) how the new budget authority provided in that bill or resolution compares with the new budget authority set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year and the reports submitted under section 302;

(B) a projection for the period of 5 fiscal years beginning with such fiscal year of budget outlays, associated with the budget authority provided in that bill or resolution, in each fiscal year in such period; and

(C) the new budget authority, and budget outlays resulting therefrom, provided by that bill or resolution for financial assistance to State and local governments; and

(2) in the case of a bill or resolution providing new or increased tax expenditures—

(A) how the new or increased tax expenditures provided in that bill or resolution will affect the levels of tax expenditures under existing law as set forth in the report accompanying the first concurrent resolution on the budget for such fiscal year, or, if a report accompanying a subsequently agreed to concurrent resolution for such year sets forth such levels, then as set forth in that report; and

(B) a projection for the period of 5 fiscal years beginning with such fiscal year of the tax expenditures which will result from that bill or resolution in each fiscal year in such period.

No projection shall be required for a fiscal year under paragraph (1)(B) or (2)(B) if the committee determines that a projection for that fiscal year is impracticable and states in its report the reason for such impracticability.

Periodic reports.

(b) UP-TO-DATE TABULATION OF CONGRESSIONAL BUDGET ACTIONS.—The Director of the Congressional Budget Office shall issue periodic reports detailing and tabulating the progress of congressional action on bills and resolutions providing new budget authority and changing revenues and the public debt limit for a fiscal year. Such reports shall include, but are not limited to—

Contents.

(1) an up-to-date tabulation comparing the new budget authority for such fiscal year in bills and resolutions on which Congress has completed action and estimated outlays, associated with such new budget authority, during such fiscal year to the new budget authority and estimated outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year and the reports submitted under section 302;

(2) an up-to-date status report on all bills and resolutions providing new budget authority and changing revenues and the public debt limit for such fiscal year in both Houses;

(3) an up-to-date comparison of the appropriate level of revenues contained in the most recently agreed to concurrent resolution on the budget for such fiscal year with the latest estimate of revenues for such year (including new revenues anticipated during such year under bills and resolutions on which the Congress has completed action); and

(4) an up-to-date comparison of the appropriate level of the public debt contained in the most recently agreed to concurrent resolution on the budget for such fiscal year with the latest estimate of the public debt during such fiscal year.

Report.

(c) FIVE-YEAR PROJECTION OF CONGRESSIONAL BUDGET ACTION.—As soon as practicable after the beginning of each fiscal year, the Director of the Congressional Budget Office shall issue a report projecting for the period of 5 fiscal years beginning with such fiscal year—

(1) total new budget authority and total budget outlays for each fiscal year in such period;

(2) revenues to be received and the major sources thereof, and the surplus or deficit, if any, for each fiscal year in such period; and

(3) tax expenditures for each fiscal year in such period.

COMPLETION OF ACTION ON BILLS PROVIDING NEW BUDGET AUTHORITY AND CERTAIN NEW SPENDING AUTHORITY

31 USC 1330.

SEC. 309. Except as otherwise provided pursuant to this title, not later than the seventh day after Labor Day of each year, the Congress shall complete action on all bills and resolutions—

(1) providing new budget authority for the fiscal year beginning on October 1 of such year, other than supplemental, deficiency, and continuing appropriation bills and resolutions, and other than the reconciliation bill for such year, if required to be reported under section 310(c); and

(2) providing new spending authority described in section 401(c)(2)(C) which is to become effective during such fiscal year.

Paragraph (1) shall not apply to any bill or resolution if legislation authorizing the enactment of new budget authority to be provided in such bill or resolution has not been timely enacted.

SECOND REQUIRED CONCURRENT RESOLUTION AND RECONCILIATION PROCESS

SEC. 310. (a) REPORTING OF CONCURRENT RESOLUTION.—The Committee on the Budget of each House shall report to its House a concurrent resolution on the budget which reaffirms or revises the concurrent resolution on the budget most recently agreed to with respect to the fiscal year beginning on October 1 of such year. Any such concurrent resolution on the budget shall also, to the extent necessary— 31 USC 1331.

(1) specify the total amount by which—

(A) new budget authority for such fiscal year;

(B) budget authority initially provided for prior fiscal years; and

(C) new spending authority described in section 401 (c) (2) (C) which is to become effective during such fiscal year,

contained in laws, bills, and resolutions within the jurisdiction of a committee, is to be changed and direct that committee to determine and recommend changes to accomplish a change of such total amount;

(2) specify the total amount by which revenues are to be changed and direct that the committees having jurisdiction to determine and recommend changes in the revenue laws, bills, and resolutions to accomplish a change of such total amount;

(3) specify the amount by which the statutory limit on the public debt is to be changed and direct the committees having jurisdiction to recommend such change; or

(4) specify and direct any combination of the matters described in paragraphs (1), (2), and (3).

Any such concurrent resolution may be reported, and the report accompanying it may be filed, in either House notwithstanding that that House is not in session on the day on which such concurrent resolution is reported. Filing.

(b) COMPLETION OF ACTION ON CONCURRENT RESOLUTION.—Not later than September 15 of each year, the Congress shall complete action on the concurrent resolution on the budget referred to in subsection (a).

(c) RECONCILIATION PROCESS.—If a concurrent resolution is agreed to in accordance with subsection (a) containing directions to one or more committees to determine and recommend changes in laws, bills, or resolutions, and—

(1) only one committee of the House or the Senate is directed to determine and recommend changes, that committee shall promptly make such determination and recommendations and report to its House a reconciliation bill or reconciliation resolution, or both, containing such recommendations; or

(2) more than one committee of the House or the Senate is directed to determine and recommend changes, each such committee so directed shall promptly make such determination and recommendations, whether such changes are to be contained in a reconciliation bill or reconciliation resolution, and submit such recommendations to the Committee on the Budget of its House, which upon receiving all such recommendations, shall report to its House a reconciliation bill or reconciliation resolution, or both, carrying out all such recommendations without any substantive revision.

Reconciliation resolution.

For purposes of this subsection, a reconciliation resolution is a concurrent resolution directing the Clerk of the House of Representatives or the Secretary of the Senate, as the case may be, to make specified changes in bills and resolutions which have not been enrolled.

(d) COMPLETION OF RECONCILIATION PROCESS.—Congress shall complete action on any reconciliation bill or reconciliation resolution reported under subsection (c) not later than September 25 of each year.

(e) PROCEDURE IN THE SENATE.—

(1) Except as provided in paragraph (2), the provisions of section 305 for the consideration in the Senate of concurrent resolutions on the budget and conference reports thereon shall also apply to the consideration in the Senate of reconciliation bills and reconciliation resolutions reported under subsection (c) and conference reports thereon.

Debate, time limitation.

(2) Debate in the Senate on any reconciliation bill or resolution reported under subsection (c), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 20 hours.

(f) CONGRESS MAY NOT ADJOURN UNTIL ACTION IS COMPLETED.—It shall not be in order in either the House of Representatives or the Senate to consider any resolution providing for the adjournment sine die of either House unless action has been completed on the concurrent resolution on the budget required to be reported under subsection (a) for the fiscal year beginning on October 1 of such year, and, if a reconciliation bill or resolution, or both, is required to be reported under subsection (c) for such fiscal year, unless the Congress has completed action on that bill or resolution, or both.

NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

31 USC 1332.

SEC. 311. (a) LEGISLATION SUBJECT TO POINT OF ORDER.—After the Congress has completed action on the concurrent resolution on the budget required to be reported under section 310(a) for a fiscal year, and, if a reconciliation bill or resolution, or both, for such fiscal year are required to be reported under section 310(c), after that bill has been enacted into law or that resolution has been agreed to, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing additional new budget authority for such fiscal year, providing new spending authority described in section 401(c)(2)(C) to become effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of revenues set forth in such concurrent resolution.

(b) DETERMINATION OF OUTLAYS AND REVENUES.—For purposes of subsection (a), the budget outlays to be made during a fiscal year and revenues to be received during a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the Senate, as the case may be.

TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

BILLS PROVIDING NEW SPENDING AUTHORITY

SEC. 401. (a) LEGISLATION PROVIDING CONTRACT OR BORROWING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, or amendment also provides that such new spending authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts. 31 USC 1351.

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be required for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day on which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

Referral to Appropriations Committee.

Discharge from consideration.

Placement on calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

Committee jurisdiction.

(c) DEFINITIONS.—

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this section, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under the Second Liberty Bond Act) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts; and

40 Stat. 288. 31 USC 774.

(C) to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act); or

49 Stat. 620.
42 USC 1305.

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

68A Stat. 3.
26 USC 1 et seq.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Fiscal Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

86 Stat. 919.
31 USC 1221 note.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act; or

59 Stat. 600;
87 Stat. 1005.
31 USC 856.
59 Stat. 597;
86 Stat. 1274.
31 USC 846.

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

REPORTING OF AUTHORIZING LEGISLATION

31 USC 1352.

SEC. 402. (a) REQUIRED REPORTING DATE.—Except as otherwise provided in this section, it shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which, directly or indirectly, authorizes the enactment of new budget authority for a fiscal year, unless that bill or resolution is reported in the House or the Senate, as the case may be, on or before May 15 preceding the beginning of such fiscal year.

(b) EMERGENCY WAIVER IN THE HOUSE.—If the Committee on Rules of the House of Representatives determines that emergency conditions require a waiver of subsection (a) with respect to any bill or resolution, such committee may report, and the House may consider and adopt, a resolution waiving the application of subsection (a) in the case of such bill or resolution.

(c) WAIVER IN THE SENATE.—

(1) The committee of the Senate which reports any bill or resolution may, at or after the time it reports such bill or resolution, report a resolution to the Senate (A) providing for the waiver of subsection (a) with respect to such bill or resolution, and (B) stating the reasons why the waiver is necessary. The resolution shall then be referred to the Committee on the Budget of the Senate. That committee shall report the resolution to the Senate, within 10 days after the resolution is referred to it (not counting any day on which the Senate is not in session) beginning with the day following the day on which it is so referred accompanied by that committee's recommendations and reasons for such recommendations with respect to the resolution. If the committee does not report the resolution within such 10-day period, it shall automatically be discharged from further consideration of the resolution and the resolution shall be placed on the calendar.

Referral to Budget Committee.

Report to Senate.

Discharge from consideration.

Placement on calendar.

(2) During the consideration of any such resolution, debate shall be limited to one hour, to be equally divided between, and controlled by, the majority leader and the minority leader or their designees, and the time on any debatable motion or appeal shall be limited to 20 minutes, to be equally divided between, and controlled by, the mover and the manager of the resolution. In the event the manager of the resolution is in favor of any such motion or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. Such leaders, or either of them, may, from the time under their control on the passage of such resolution, allot additional time to any Senator during the consideration of any debatable motion or appeal. No amendment to the resolution is in order.

Debate, time limitation.

(3) If, after the Committee on the Budget has reported (or been discharged from further consideration of) the resolution, the Senate agrees to the resolution, then subsection (a) of this section shall not apply with respect to that bill or resolution referred to in the resolution.

(d) CERTAIN BILLS AND RESOLUTIONS RECEIVED FROM OTHER HOUSE.—Notwithstanding the provisions of subsection (a), if under that subsection it is in order in the House of Representatives to consider a bill or resolution of the House, then it shall be in order to consider a companion or similar bill or resolution of the Senate; and if under that subsection it is in order in the Senate to consider a bill or resolution of the Senate, then it shall be in order to consider a companion or similar bill of the House of Representatives.

(e) EXCEPTIONS.—

(1) Subsection (a) shall not apply with respect to new spending authority described in section 401(c)(2)(C).

(2) Subsection (a) shall not apply with respect to new budget authority authorized in a bill or resolution for any provision of the Social Security Act if such bill or resolution also provides new spending authority described in section 401(c)(2)(C) which, under section 401(d)(1)(A), is excluded from the application of section 401(b).

(f) STUDY OF EXISTING SPENDING AUTHORITY AND PERMANENT APPROPRIATIONS.—The Committees on Appropriations of the House of Representatives and the Senate shall study on a continuing basis those provisions of law, in effect on the effective date of this section, which provide spending authority or permanent budget authority. Each committee shall, from time to time, report to its House its recommendations for terminating or modifying such provisions.

Report to Congress.

ANALYSIS BY CONGRESSIONAL BUDGET OFFICE

31 USC 1353.

Submittal to congressional committees.

SEC. 403. The Director of the Congressional Budget Office shall, to the extent practicable, prepare for each bill or resolution of a public character reported by any committee of the House of Representatives or the Senate (except the Committee on Appropriations of each House), and submit to such committee—

(1) an estimate of the costs which would be incurred in carrying out such bill or resolution in the fiscal year in which it is to become effective and in each of the 4 fiscal years following such fiscal year, together with the basis for each such estimate; and

(2) a comparison of the estimate of costs described in paragraph (1) with any available estimate of costs made by such committee or by any Federal agency.

The estimate and comparison so submitted shall be included in the report accompanying such bill or resolution if timely submitted to such committee before such report is filed.

JURISDICTION OF APPROPRIATIONS COMMITTEES

SEC. 404. (a) AMENDMENT OF HOUSE RULES.—Clause 2 of rule XI of the Rules of the House of Representatives is amended by redesignating paragraph (b) as paragraph (e) and by inserting after paragraph (a) the following new paragraphs:

Post, p. 322.

"(b) Rescission of appropriations contained in appropriation Acts (referred to in section 105 of title 1, United States Code).

"(c) The amount of new spending authority described in section 401(c)(2) (A) and (B) of the Congressional Budget Act of 1974 which is to be effective for a fiscal year.

"(d) New spending authority described in section 401(c)(2)(C) of the Congressional Budget Act of 1974 provided in bills and resolutions referred to the committee under section 401(b)(2) of that Act (but subject to the provisions of section 401(b)(3) of that Act)."

(b) AMENDMENT OF SENATE RULES.—Subparagraph (c) of paragraph 1 of rule XXV of the Standing Rules of the Senate is amended to read as follows:

"(c) Committee on Appropriations, to which committee shall be referred all proposed legislation, messages, petitions, memorials, and other matters relating to the following subjects:

"1. Except as provided in subparagraph (r), appropriation of the revenue for the support of the Government.

"2. Rescission of appropriations contained in appropriation Acts (referred to in section 105 of title 1, United States Code).

"3. The amount of new spending authority described in section 401 (c)(2) (A) and (B) of the Congressional Budget Act of 1974 provided in bills and resolutions referred to the committee under section 401(b)(2) of that Act (but subject to the provisions of section 401 (b)(3) of that Act).

"4. New advance spending authority described in section 401(c) (2)(C) of the Congressional Budget Act of 1974 provided in bills and resolutions referred to the committee under section 401(b)(2) of that Act (but subject to the provisions of section 401(b)(3) of that Act)."

* * * * * * *

EXERCISE OF RULEMAKING POWERS

SEC. 904. (a) The provisions of this title (except section 905) and of titles I, III, and IV and the provisions of sections 606, 701, 703, and 1017 are enacted by the Congress— 31 USC 1301 note.

(1) as an exercise of the rulemaking power of the House of Representatives and the Senate, respectively, and as such they shall be considered as part of the rules of each House, respectively, or of that House to which they specifically apply, and such rules shall supersede other rules only to the extent that they are inconsistent therewith; and

(2) with full recognition of the constitutional right of either House to change such rules (so far as relating to such House) at any time, in the same manner, and to the same extent as in the case of any other rule of such House.

(b) Any provision of title III or IV may be waived or suspended in the Senate by a majority vote of the Members voting, a quorum being present, or by the unanimous consent of the Senate. Waiver. Ante, pp. 306, 317.

(c) Appeals in the Senate from the decisions of the Chair relating to any provision of title III or IV or section 1017 shall, except as otherwise provided therein, be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the resolution, concurrent resolution, reconciliation bill, or rescission bill, as the case may be. Appeals.

* * * * * * *

APPENDIX C

Tax Expenditures by Function
(Excerpt From Special Analyses G of the Budget of the United States, pages G-31–G-33)

Table G-2. **REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION**

(In millions of dollars)

Description	Fiscal years		
	1982	1983	1984
National defense:			
Exclusion of benefits and allowances to Armed Forces personnel	2,250	2,200	2,250
Exclusion of military disability pensions	165	165	160
International affairs:			
Exclusion of income earned abroad by United States citizens	985	1,285	1,300
Deferral of income of domestic international sales corporations (DISC)	1,550	1,385	1,080
General science, space, and technology:			
Expensing of research and development expenditures	450	−870	−1,235
Credit for increasing research activities	415	645	685
Energy:			
Expensing of exploration and development costs:			
Oil and gas	3,430	1,520	1,215
Other fuels	25	30	30
Excess of percentage over cost depletion:			
Oil and gas	2,100	1,850	1,665
Other fuels	410	505	530
Capital gains treatment of royalties on coal	205	180	180
Exclusion of interest on State and local government industrial development bonds for certain energy facilities	5	15	20
Residential energy credits:			
Supply incentives	250	430	575
Conservation incentives	360	330	305
Alternative, conservation and new technology credits:			
Supply incentives	205	195	200
Conservation incentives	220	125	25
Alternative fuel production credit	15	40	70
Alcohol fuel credit [1]	5	5	5
Energy credit for intercity buses	10	10	10
Natural resources and environment:			
Expensing of exploration and development costs, nonfuel minerals	50	55	60
Excess of percentage over cost depletion, nonfuel minerals	405	440	470
Exclusion of interest on State and local government pollution control bonds	825	975	1,105
Tax incentives for preservation of historic structures	185	270	310
Capital gains treatment of iron ore	20	20	20
Capital gains treatment of certain timber income	335	370	515
Investment credit and seven-year amortization for reforestation expenditures	10	15	20
Agriculture:			
Expensing of certain capital outlays	545	560	585
Capital gains treatment of certain income	610	615	585
Commerce and housing credit:			
Dividend and interest exclusion	2,160	445	435
Exclusion of interest on State and local industrial development bonds	1,640	2,120	2,520
Exemption of credit union income	150	170	185
Excess bad debt reserves of financial institutions	405	405	635
Exclusion of interest on life insurance savings	4,535	4,805	4,170
Deductibility of interest on consumer credit	10,825	10,765	10,540
Deductibility of mortgage interest on owner-occupied homes	23,305	25,065	27,945
Deductibility of property tax on owner-occupied homes	8,360	8,765	9,535
Exclusion of interest on State and local housing bonds for owner-occupied housing	905	1,110	1,290
Capital gains (other than agriculture, timber, iron ore and coal)	18,020	15,890	16,615
Deferral of capital gains on home sales	1,625	1,480	1,740
Exclusion of capital gains on home sales for persons age 55 and over	585	535	630

Table G-2. **REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years		
	1982	1983	1984
Carryover basis of capital gains at death	1,995	2,180	2,370
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	16,455	12,985	14,585
Safe harbor leasing rules	3,333	2,990	2,795
Amortization of start-up costs	75	120	180
Exclusion of interest on certain savings certificates	935	1,665	320
Reinvestment of dividends in public utility stock	130	365	415
Transportation:			
Deferral of tax on shipping companies	25	30	40
Exclusion of interest on State and local government industrial development bonds for mass transit	*	5	15
Community and regional development:			
Five-year amortization for housing rehabilitation	45	55	65
Investment credit for rehabilitation of structures (other than historic)	250	335	365
Education, training, employment, and social services:			
Exclusion of interest on State and local student loan bonds	100	155	220
Parental personal exemption for students age 19 or over	1,070	995	950
Exclusion of employee meals and lodging (other than military)	655	680	725
Employer educational assistance	40	40	20
Exclusion of contributions to prepaid legal services plans	20	25	25
Investment credit for ESOPs	1,390	1,250	1,375
Deductibility of charitable contributions (education)	835	775	840
Deductibility of charitable contributions, other than education and health	7,595	7,145	7,190
Credit for child and dependent care expenses	1,175	1,520	1,765
Credit for employment of AFDC recipients and public assistance recipients under work incentive programs	40	*	.....
General jobs credit	80	25	*
Targeted jobs credit	235	290	465
Health:			
Exclusion of employer contributions for medical insurance premiums and medical care	16,365	18,645	21,300
Deductibility of medical expenses	3,945	3,105	2,630
Exclusion of interest on State and local hospital bonds	680	865	1,055
Deductibility of charitable contributions (health)	1,245	1,170	1,205
Tax credit for orphan drug research	.....	10	15
Income security:			
Exclusion of social security benefits:			
Disability insurance benefits	1,780	1,690	1,660
OASI benefits for retired workers	14,825	15,685	16,680
Benefits for dependents and survivors	3,725	3,765	3,870
Exclusion of railroad retirement system benefits	790	780	735
Exclusion of workmen's compensation benefits	1,730	1,870	2,090
Exclusion of special benefits for disabled coal miners	185	170	165
Exclusion of untaxed unemployment insurance benefits	2,500	3,260	3,020
Exclusion of disability pay	155	145	135
Net exclusion of pension contributions and earnings:			
Employer plans	45,280	49,700	56,560
Plans for self-employed and others	2,835	3,755	4,230
Exclusion of other employee benefits:			
Premiums on group term life insurance	2,035	2,100	2,250
Premiums on accident and disability insurance	120	115	120
Income of trusts to finance supplementary unemployment benefits	10	5	5
Additional exemption for the blind	35	35	35
Additional exemption for elderly	2,385	2,365	2,410
Tax credit for the elderly	135	135	135

Table G-2. **REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years		
	1982	1983	1984
Deductibility of casualty losses	920	575	380
Earned income credit [2]	455	385	330
Exclusion of interest on State and local housing bonds for rental housing	395	530	710
Deduction for motor carrier operating rights	140	75	75
Deduction for certain adoption expenses	10	10	10
Veterans benefits and services:			
Exclusion of veterans disability compensation	1,855	1,825	1,830
Exclusion of veterans pensions	330	310	295
Exclusion of GI bill benefits	180	150	130
General government:			
Credits and deductions for political contributions	180	190	200
General purpose fiscal assistance:			
Exclusion of interest on general purpose State and local debt	6,885	8,000	9,105
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	19,160	20,060	21,770
Tax credit for corporations receiving income from doing business in United States possessions	1,375	1,245	1,075
Interest:			
Deferral of interest on savings bonds	135	435	475

* $5 million or less. All estimates have been rounded to the nearest $5 million.

[1] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $55 million in 1982, $80 million in 1983, and $90 million in 1984.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1982, $1,280 million; 1983, $1,205 million; 1984, $1,125 million.

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OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

Staff Data and Materials Related to Social Security Financing

JANUARY 27, 1983

Prepared for the use of the Committee on Ways and Means by its staff

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PREFACE

This document provides basic data concerning the financing of the social security system. Its principal purpose is to describe the current manner in which the social security programs are financed, the means by which financial soundness is measured, and the current financial condition of the system, both in the short- and long-term future. Estimates of the financial condition of the system were prepared by the Social Security Administration [SSA], the Health Care Financing Administration [HCFA], and the Congressional Budget Office [CBO]. The projections provided by SSA and HCFA are based on the "intermediate II-B" and "pessimistic" assumptions contained in the 1982 Social Security Trustees' Reports. The CBO estimates are based on CBO's Fall-1982 economic assumptions. The forecasts provided by these organizations include the estimated effects of the provisions related to the social security programs contained in the "Tax Equity and Fiscal Responsibility Act of 1982" (Public Law 97-248).

It must be emphasized that all Social Security Administration estimates were based on data that did not reflect economic experience after the first quarter of 1982. These estimates are therefore subject to change. The Social Security Trustees have been requested to provide new estimates prior to congressional consideration of the financing question in February. In particular, it should be noted that the recent experience of the financial operations of the program has been somewhat more adverse than the intermediate II-B path in the Trustees' report. Those estimates showed that the combined reserves of the OASDI and HI programs would be $34.6 billion at the beginning of this year. The preliminary actual figure has turned out to be $32.7 billion. Further, the report anticipated that the retirement fund would need to borrow $11.6 billion in late 1982 to allow benefits to continue to be paid until June 1983. The actual amount borrowed was $17.5 billion. Thus, the near-term projections are likely to be somewhat more pessimistic than the intermediate II-B path reflected in this print.

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I. Method of Financing the System

BASIS OF SOCIAL SECURITY FINANCING

The various social security programs are designed, for the most part, to operate on a self-sustaining basis. The three major programs, OASI, DI and HI, receive the vast bulk of their resources from the social security tax. The OASI program pays benefits to retired workers and their dependent spouses and minor children and to the surviving spouses and minor children of deceased workers. The DI program pays benefits to disabled workers and to their dependent spouses and minor children. The HI program provides for the costs of hospitalization and certain skilled nursing home and home health care for social security beneficiaries who are over age 65 or who have been on the DI rolls for more than 2 years.

Supplementary Medical Insurance (SMI), often referred to as part B of medicare, is a fourth social security program. A person who is entitled to HI benefits will be automatically enrolled in SMI, but he may decline coverage. Other persons 65 and older, who are not eligible for the HI benefits, can enroll in SMI at certain designated times. Generally, SMI covers the cost of services furnished by doctors, hospital outpatient facilities, home health agencies, and various other medical services.

The SMI program, unlike the other three programs, is not self-sustaining. This program is heavily supported with infusions from the General Fund of the Treasury. Originally (in 1965) 50 percent of the cost of the program was borne by its beneficiaries, through monthly premiums, with the other 50 percent borne by the General Fund of the Treasury. Today, beneficiaries bear 25 percent of the cost with the remainder picked up by the General Fund. Frequently, in discussions of social security financing, the status and operation of this program is ignored, since it is not self-supporting and receives no proceeds from the social security tax.

SOURCES OF INCOME TO THE SYSTEM

About 116 million workers and their employers will pay social security taxes in 1983. The social security payroll tax is a composite of three separate tax rates supporting OASI, DI, and HI (or part A of medicare). (Actually there are only two separate taxes in the law—OASDI and HI—but the OASI/DI allocations are statutorily specified.)

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

thorized under limited conditions until December 31, 1982, by Public Law 97-123.

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

In fiscal year 1981, 96.8 percent of the receipts of the OASDHI trust funds consisted of payroll tax revenues, 1 percent represented transfers from the general fund for various expenditures, and 2 percent represented interest on investments. As for the OASI trust fund, 97.9 percent of its receipts consisted of tax revenues, less than 0.05 percent represented transfers from the general fund for various expenditures, and 2.0 percent represented interest on investments.

TABLE 1.—TOTAL SOCIAL SECURITY INCOME AND PAYROLL TAX REVENUE COMPONENT, SELECTED FISCAL YEARS 1950-81

Fiscal year	Total income (in millions)				Payroll tax income as a percent of total income			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$2,367	.....	.....	$2,367	89.0	.....	.....	89.0
1960	10,360	$1,034	.....	11,394	95.0	95.5	.....	95.0
1970	31,746	4,380	$5,614	41,740	94.4	94.5	85.2	93.2
1980	100,051	17,376	25,415	142,842	97.6	96.7	91.5	96.4
1981	121,572	12,993	32,863	167,428	97.9	96.9	92.6	96.8

Source: 1982 Social Security Trustees' reports.

TABLE 2.—GENERAL REVENUE REIMBURSEMENT AS A COMPONENT OF SOCIAL SECURITY INCOME, SELECTED FISCAL YEARS 1950-81

Fiscal year	General revenue reimbursement income[1] (in millions)				As a percentage of total income			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$4	.....	.....	$4	(2)	.....	.....	(2)
1960	.....	.....	.....	.....	.....	.....	.....	.....
1970	442	$16	$628	1,086	1	(2)	11	3
1975	447	52	529	1,028	1	1	4	1
1980	557	118	871	1,546	1	1	3	1
1981	540	130	834	1,504	(2)	1	3	1

[1] Consists of reimbursement to the trust funds for: (a) Payments resulting from noncontributory military service; (b) Cash payments to noninsured persons aged 72 or over; (c) Medicare benefits for uninsured persons; (d) Review of Medicaid and Maternal and Child Health hospital admissions.

[2] Less than 0.05 percent.

Source: 1982 Social Security Trustees' reports.

TABLE 3.—INTEREST AS A COMPONENT OF SOCIAL SECURITY INCOME, SELECTED FISCAL YEARS 1950–81

Fiscal year	Interest income (in millions)				As a percentage of total income			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$257			$257	11			11
1960	517	$47		564	5	5		5
1970	1,350	223	$137	1,710	4	5	2	4
1975	2,292	512	609	3,413	4	6	5	4
1980	1,886	453	1,039	3,378	2	3	4	2
1981	2,016	273	1,307	3,596	2	2	4	2

Source: 1982 Social Security Trustees' reports.

CURRENTLY SCHEDULED TAX RATES AND TAXABLE EARNINGS BASE

Tax rates

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

TABLE 4.—TAX RATES FOR THE SOCIAL SECURITY TRUST FUNDS, 1977 AND AFTER

[In percent]

Calendar years	OASI [1]	DI [2]	OASDI	HI [3]	Total (OASDHI)
EMPLOYERS AND EMPLOYEES, EACH					
1977	4.375	0.575	4.95	0.90	5.85
1978	4.275	.775	5.05	1.00	6.05
1979	4.330	.750	5.08	1.05	6.13
1980	4.520	.560	5.08	1.05	6.13
1981	4.700	.650	5.35	1.30	6.65
1982–84	4.575	.825	5.40	1.30	6.70
1985	4.750	.950	5.70	1.35	7.05
1986–89	4.750	.950	5.70	1.45	7.15
1990 and later	5.100	1.100	6.20	1.45	7.65
SELF-EMPLOYED PERSONS					
1977	6.1850	0.8150	7.00	0.90	7.90
1978	6.0100	1.0900	7.10	1.00	8.10
1979	6.0100	1.0400	7.05	1.05	8.10
1980	6.2725	.7775	7.05	1.05	8.10
1981	7.0250	.9750	8.00	1.30	9.30
1982–84	6.8125	1.2375	8.05	1.30	9.35
1985	7.1250	1.4250	8.55	1.35	9.90

TABLE 4.—TAX RATES FOR THE SOCIAL SECURITY TRUST FUNDS, 1977 AND AFTER—Continued

[In percent]

Calendar years	OASI [1]	DI [2]	OASDI	HI [3]	Total (OASDHI)
1986–89	7.1250	1.4250	8.55	1.45	10.00
1990 and later	7.6500	1.6500	9.30	1.45	10.75

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

Tax base

In 1983, the tax applies to the first $35,700 of an individual's earnings. In future years, the amount of earnings subject to the tax will rise depending on the increase in average wages that occurs from one year to the next.

The table which follows shows the estimated increases in the earnings base over the next few years.

TABLE 5.—ANNUAL EARNINGS SUBJECT TO SOCIAL SECURITY TAX

	Actual	CBO projections	Intermediate II–B projections	Pessimistic projections
Calendar year:				
1980	$25,900			
1981	29,700			
1982	32,400			
1983	35,700			
1984		$36,900	$37,500	$37,200
1985		39,000	40,500	39,900
1986		41,700	43,800	42,900
1987		44,700	46,800	46,800
1988		47,700	50,100	51,000
1989		51,000	53,400	55,500
1990		54,600	57,000	60,300

WORKERS WITH COVERED EARNINGS

Approximately 90 percent of all workers in the United States contribute to social security. While coverage is compulsory for most types of employment, approximately 8 million jobs are exempt from participation in the program. The majority of these noncovered positions are in the Federal, State and local governments and nonprofit organizations. Certain self-employed and part-time workers are exempted from the program largely because of their minimal annual net earnings, the irregularity of their work schedules

and the administrative difficulty of maintaining their earnings records.

While Federal civilian employment is excluded from social security coverage, Federal employees are now required to pay the HI portion of the tax, as a result of provisions contained in the "Tax Equity and Fiscal Responsibility Act" passed last year.

TABLE 6.—SOCIAL SECURITY COVERAGE [1]

[In millions]

Occupational group	Number of employees (in millions)	Covered	
		Number	Percent
Specifically exempt from coverage:			
Federal civilian employees	2.7	0.2	[2] 7.4
Voluntary coverage:			
State and local government	13.1	9.3	71.0
Nonprofit organization	6.5	5.1	78.5
Mandatorily covered:			
Industry and commerce	77.0	76.8	99.7
Farm [3]	2.0	1.5	75.0
Domestic [3]	1.9	.5	26.3
Self-employed [3]	8.6	6.5	75.6

[1] Estimates based on latest available data (1980). Estimates for some groups, such as non-profit employees, are subject to error due to rapid turnover and the number of employees holding more than one job.
[2] Federal employees who are temporary or who work for quasi-Federal agencies such as TVA are covered.
[3] Mandatorily covered if special minimum coverage requirements met. Special minimum requirements for coverage generally relate to amount of wages earned—for example, domestic employees must receive at least $50 from one employer during a calendar quarter for those wages to be covered.

Source: Office of Research and Statistics, SSA.

Tables 7, 8, and 9 show how the proportion of workers covered by social security, the proportion of all wages covered by the social security program and the proportion of covered wages subject to social security tax have changed over the years.

TABLE 7.—CIVILIAN JOBS COVERED BY SOCIAL SECURITY SYSTEM, 1939–80

Year	Paid civilian employees [1] (in millions)	OASDHI coverage (in millions)	Percent covered
1939 [2]	43.6	24.0	55.1
1944 [2]	51.2	30.8	60.2
1949 [2]	56.7	34.3	60.5
1954 [2]	59.5	45.3	76.1
1955	62.8	51.8	82.5
1956	63.2	53.2	84.2
1957	63.1	53.7	85.1
1958	62.7	53.4	85.2
1959	64.4	55.4	86.0
1960	64.6	55.7	86.2

TABLE 7.—CIVILIAN JOBS COVERED BY SOCIAL SECURITY SYSTEM, 1939–80—Continued

Year	Paid civilian employees [1] (in millions)	OASDHI coverage (in millions)	Percent covered
1961	65.3	56.1	85.9
1962	66.4	57.3	86.3
1963	67.6	58.5	86.5
1964	69.3	60.1	86.7
1965	71.6	62.8	87.7
1966	73.6	64.9	88.2
1967	74.4	65.7	88.3
1968	75.9	67.1	88.4
1969	78.0	68.6	87.9
1970	77.7	69.2	89.1
1971	79.3	69.8	88.0
1972	82.1	72.6	88.4
1973	84.9	75.6	89.0
1974	84.5	75.2	89.0
1975	84.4	75.7	89.3
1976	87.8	80.3	91.5
1977	92.0	82.1	89.2
1978	95.2	83.2	87.4
1979	97.5	87.5	89.7
1980	97.0	86.6	89.3

[1] Includes paid employees and self-employed for all years.
[2] Monthly average for these years; all other years as of December.
Source: Social Security Statistical Supplement, 1981, and Historical Statistics of the United States.

TABLE 8.—CIVILIAN WAGES COVERED BY SOCIAL SECURITY SYSTEM, 1946–82

[Dollars in millions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent covered earnings
		Employed	Self-employed		
1946	$148,719	$79,000	.....	$79,000	53.1
1947	158,980	92,100	.....	92,100	57.9
1948	176,366	101,900	.....	101,900	57.8
1949	171,141	99,600	.....	99,600	58.2
1950	185,705	109,400	.....	109,400	58.9
1951	214,496	131,200	$16,300	147,500	68.8
1952	228,712	141,800	16,300	158,100	69.1
1953	240,387	154,000	16,900	170,900	71.1
1954	238,030	153,200	16,700	169,900	71.4
1955	254;549	169,400	24,400	193,800	76.1
1956	272,288	186,200	28,100	214,300	78.7
1957	284,540	203,100	28,200	231,300	81.3
1958	288,209	205,600	28,300	233,900	81.2
1959	306,548	222,500	29,700	252,200	82.3

TABLE 8.—CIVILIAN WAGES COVERED BY SOCIAL SECURITY SYSTEM, 1946–82—Continued

[Dollars in millions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent covered earnings
		Employed	Self-employed		
1960	319,135	234,300	29,100	263,400	82.5
1961	328,052	238,800	29,900	268,700	81.9
1962	357,934	255,700	31,300	287,000	80.2
1963	363,914	268,200	31,600	299,800	82.4
1964	388,594	288,400	33,500	321,900	82.8
1965	418,941	308,600	40,200	348,800	83.3
1966	458,879	344,200	43,900	388,100	84.6
1967	488,181	374,700	44,700	419,400	85.9
1968	533,559	410,500	46,300	456,800	85.6
1969	582,713	452,500	46,900	499,400	85.7
1970	614,942	480,000	47,900	527,900	85.8
1971	650,331	505,200	50,600	555,800	85.5
1972	712,050	559,100	54,500	613,600	86.2
1973	796,447	619,800	62,800	682,600	85.7
1974	854,472	678,100	65,600	743,700	87.0
1975	896,409	717,200	70,400	787,600	87.3
1976	983,997	797,900	76,800	874,700	88.9
1977	1,087,292	887,500	80,600	968,100	89.0
1978	1,222,285	999,800	88,100	1,087,900	89.0
1979 [1]	1,367,700	1,121,200	96,200	1,217,400	89.0
1980 [1]	1,472,800	1,226,100	95,000	1,235,600	83.9
1981 [1]	1,618,600	1,349,100	98,800	1,447,900	89.5
1982 [1]	NA	1,437,500	99,000	1,536,500	NA

[1] Projected.

Source: Social Security Statistical Supplement, 1981.

TABLE 9.—TAXABLE COVERED WAGES AS A PERCENT OF ALL COVERED WAGES, 1937–78

Year	Earnings		
	Total in covered employment (in millions)	Reported taxable	
		Amount (in millions)	Percent of total
1937	$32,200	$29,620	92.0
1938	28,500	26,500	93.0
1939	32,200	29,750	92.4
1940	35,700	23,970	92.4
1941	45,500	41,850	92.0
1942	58,200	52,940	91.0
1943	69,700	62,420	89.6
1944	73,300	64,430	87.9
1945	71,600	62,950	87.9

TABLE 9.—TAXABLE COVERED WAGES AS A PERCENT OF ALL COVERED WAGES, 1937–78—Continued

Year	Earnings		
	Total in covered employment (in millions)	Reported taxable	
		Amount (in millions)	Percent of total
1946	79,300	69,090	87.1
1947	92,400	78,370	84.8
1948	102,300	84,120	82.2
1949	100,000	81,810	81.8
1950	109,800	87,500	79.7
1951	148,900	120,770	81.1
1952	159,900	128,640	80.5
1953	173,000	135,870	78.5
1954	171,900	133,520	77.7
1955	196,100	157,540	80.3
1956	216,800	170,720	78.8
1957	233,900	181,380	77.5
1958	236,500	180,720	76.4
1959	255,000	202,310	79.3
1960	265,200	207,000	78.1
1961	270,700	209,640	77.4
1962	289,000	219,050	75.8
1963	302,300	225,550	74.6
1964	324,500	236,390	72.8
1965	351,700	250,730	71.3
1966	390,700	312,540	80.0
1967	422,300	329,960	78.1
1968	460,000	375,840	81.7
1969	502,800	402,550	80.1
1970	531,600	415,600	78.2
1971	559,700	426,960	76.3
1972	617,900	484,110	78.3
1973	686,700	561,850	81.8
1974	746,700	636,760	85.3
1975	787,600	664,660	84.4
1976	874,700	737,700	84.3
1977	968,100	817,300	84.4
1978	1,087,900	915,800	84.2

Source: Social Security Statistical Supplement, 1981.

BRIEF HISTORY OF PAYROLL TAX STRUCTURE

Collection of payroll taxes began in 1937. Since that time tax rates have been amended more than 20 times. Beginning with a tax rate on employees and employers, each, of 1 percent on earnings up to $3,000 annually, the tax structure remained constant until 1950 when the rate rose to 1.5 percent. (Earlier increases had been scheduled, but legislation during the period precluded them

from going into effect.) In 1951, the earnings base increased for the first time to $3,600 annually, and the self-employed were brought under the system with a tax rate of 2.25 percent, i.e., 1.5 times the employee/employer rate. The employee/employer rate rose again to 2 percent in 1954. Coupled with many expansions in the system (the introduction of disability insurance and medicare foremost among them), more than a dozen changes in the financial structure of the system have been made since the early 1950's. Today, the maximum employee tax is $2,391.67 (6.7 percent times $35,700) and the maximum tax for a self-employed worker is $3,337.95 (9.35 percent times $35,700). A summary of the year-by-year tax rates and earnings bases since 1937 is provided in the following table.

TABLE 10.—HISTORICAL SOCIAL SECURITY TAX LEVELS

Calendar years	OASDHI tax rates and taxable earnings bases			Maximum OASDHI tax payment	
	Taxable earnings base	Employer and employee, each	Self-employed	Employer and employee, each	Self-employed
1937–49	$3,000	1.0	.....	$30.00	.....
1950	3,000	1.5	.....	45.00	.....
1951–53	3,600	1.5	2.25	54.00	$81.00
1954	3,600	2.0	3.0	72.00	108.00
1955–56	4,200	2.0	3.0	84.00	126.00
1957–58	4,200	2.25	3.375	94.50	141.75
1959	4,800	2.50	3.75	120.00	180.00
1960–61	4,800	3.0	4.5	144.00	216.00
1962	4,800	3.125	4.7	150.00	225.60
1963–65	4,800	3.625	5.4	174.00	259.20
1966	6,600	4.2	6.15	277.20	405.90
1967	6,600	4.4	6.4	290.40	422.40
1968	7,800	4.4	6.4	343.20	499.20
1969–70	7,800	4.8	6.9	374.40	538.20
1971	7,800	5.2	7.5	405.60	585.00
1972	9,000	5.2	7.5	468.00	675.00
1973	10,800	5.85	8.0	631.80	864.00
1974	13,200	5.85	7.9	772.20	1,042.80
1975	14,100	5.85	7.9	824.85	1,113.90
1976	15,300	5.85	7.9	895.05	1,208.70
1977	16,500	5.85	7.9	965.25	1,303.50
1978	17,700	6.05	8.1	1,070.85	1,433.70
1979	22,900	6.13	8.1	1,403.77	1,854.90
1980	25,900	6.13	8.1	1,587.67	2,097.90
1981	29,700	6.65	9.3	1,975.05	2,762.10
1982	32,400	6.70	9.35	2,170.08	3,029.40
1983	35,700	6.70	9.35	2,391.67	3,337.95

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II. Measuring the Ability of the OASDHI Programs To Meet Their Expenses

Because confidence in the security provided by the programs is based on the ability of the social security tax revenues to cover benefit obligations, Congress has traditionally insisted on periodic and thorough analyses of the actuarial status of the programs both over the short range and over a long-range period extending well into the future. The Social Security Act requires an analysis of the status of each of the trust funds annually under the direction of the Board of Trustees of those funds. (The Secretaries of Health and Human Services, Labor, and Treasury constitute the Board of Trustees.) The Trustees are required to transmit these annual reports to the Congress no later than April 1 of each year. Once transmitted, the Trustees' reports and their findings as to the financial status of the funds form the usual benchmarks for discussion of the short-range and long-range status of the programs.

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

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

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

The automatic cost-of-living adjustment (COLA) makes the system's financing extremely sensitive to changes in the economy, especially to real wage changes—the amount by which increases in wages exceed increases in prices. If wages grow faster than prices, trust fund income stays ahead of benefit increases. If prices grow faster than wages, income falls behind in the short run requiring the use of trust fund reserves to pay benefits.

SHORT-RANGE FINANCIAL ADEQUACY

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

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

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

The 1977 amendments provided substantial additional financing for the program both through benefit reductions and tax increases. Further strengthening of the system resulted from benefit reductions enacted in 1980 and 1981. At the time of the 1977 Amendments, it was estimated that the changes made that year would assure a minimum OASDI reserve level of at least 25 percent of one year's benefits in the near term—a reserve of 3 months of benefit payments.

The 1977 amendments were enacted to avert projected shortfalls resulting from a flaw in the benefit formula which, in combination with successive years of high inflation, was increasing benefits much more than had been anticipated. The 1977 legislation corrected the flaw in the formula, reduced overall future benefits somewhat, and raised taxes in the future. These changes were expected to assure adequate financing into the next century. (These changes also had the effect of reducing the long-term deficit to 1.4 percent of total payroll, only a fraction of the 8.2 percent deficit projected before the amendments.)

However, today's short-term financing crisis is the result of two factors: (1) 5 years of a weak economy, with recurring cycles of high inflation coupled with low productivity and high unemployment (see table 11); and (2) insufficient reserve levels provided by the tax increases and benefit cuts enacted in 1977 but which did not take full effect until 1981 and later (see tables 12 and 13).

At the time of the 1977 amendments, the OASDI trust funds had a reserve of 37 percent, which was expected to fall to 25 percent by early 1981. The largest tax increases were, therefore, delayed until 1981, 1985, and 1990, and the full effect of the technical corrections in the formula and reducing benefits for new beneficiaries was delayed until 1983.

Economic conditions since 1977, however, turned out to be far worse than the assumptions on which the 1977 amendments were based. For example, the 1980 benefit increase cost about $13 billion more than had been predicted in 1977. Benefit increases raised

trust fund outlays higher than previously predicted, as indicated in the table below, at exactly the same time as real wages were declining and unemployment was increasing, reducing trust fund income. The OASI program has had to use reserves to make up for shortfalls in income every year since 1977. As a result, even though $8.7 billion was reallocated from DI to OASI in 1980 and 1981, OASI reserves are now depleted, and DI/HI reserves loaned $17.5 billion to OASI in late 1982 to make benefit payments.

TABLE 11.—COMPARISON OF KEY ECONOMIC INDICATORS, 1977 FORECAST AND ACTUAL EXPERIENCE

Calendar year	CPI increase		Real wages		Unemployment	
	Est.	Actual	Est.	Actual	Est.	Actual
1977	6.0	6.5	2.4	1.6	7.1	7.0
1978	5.4	7.6	2.7	0.6	6.3	6.0
1979	5.3	11.5	2.5	−2.7	5.7	5.8
1980	4.7	13.5	2.4	−4.9	5.2	7.1
1981	4.1	10.3	2.3	−1.6	5.0	7.6

TABLE 12.—COMPARISON OF OASDI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS

[In percent]

Calendar year	OASDI reserves at beginning of year as percent of outgo during the year			
	1977 estimate	CBO [1]	1982 trustees' II-B [1]	1982 trustees' pessimistic assumptions [1]
1980	26	25	25	25
1981	25	18	18	18
1982	30	15	15	15
1983	36	11	11	11
1984	41	2	3	1
1985	45	−6	−4	−11
1986	52	−8	−7	−19
1987	59	−8	−9	−27

[1] All estimates include the effects of the recently enacted Tax Equity and Fiscal Responsibility Act of 1982.

TABLE 13.—COMPARISON OF COMBINED OASDI AND HI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS

[In percent]

Calendar years	OASDHI reserves at beginning of year as percent of outgo during the year			
	1977 estimate	CBO [1]	1982 trustees' 11-B [1]	1982 trustees' pessimistic assumptions [1]
1980	29	29	29	29
1981	38	23	23	23
1982	34	22	22	22
1983	39	16	16	16
1984	42	9	10	8
1985	43	3	5	−2
1986	47	2	3	−10
1987	50	2	1	−17

[1] All estimates include the effects of the Tax Equity and Fiscal Responsibility Act of 1982.

The 1977 experience would seem to argue for using a relatively pessimistic set of economic assumptions in determining whatever minimum reserve level is chosen. While it took 10 years to erode most of the 1-year reserve cushion that existed in the OASDI trust funds in 1970, it took only 5 years (from 1976 to 1981) for the combined OASDHI reserves to fall by 35 percentage points. (OASDHI reserves stood at 60 percent of 1-year's outgo at the beginning of 1976, but were only 23 percent of 1-year's outgo at the beginning of 1981.) Thus, even on a relatively short time frame basis, say only a 5-year period, a contingency reserve of 3 months' worth of assets (25 percent of 1-year's outgo) would hardly give much assurance that the system could be kept out of red ink. If one expected Congress to take action annually on social security, as it does with appropriation bills for other activities of the Government, then a 25-percent reserve would be quite ample, for it is not likely that even under the most adverse economic conditions, such a reserve would be used up in a single year. However, if one wanted the system to be self-sufficient for many years into the future, planning to have a 25- or 50-percent reserve for even 5 years from now would provide relatively little assurance that Congress would not have to intercede again.

LONG-RANGE STANDARD OF FINANCIAL ADEQUACY

The long-range status of the program is estimated on the basis of a variety of economic and demographic factors. Many of these are highly subject to fluctuation and very difficult to predict with any degree of accuracy. Included are such factors as birth and immigration rates, level of economic activity, inflation, and mortality. Three paths have usually been projected in making long-range estimates: a pessimistic path, an optimistic path, and an intermediate path. (The 1982 report also includes a fourth path (II-A) with reflects more optimistic economic assumptions combined with intermediate demographic assumptions).

It is unlikely, of course, that the actuaries will actually succeed in projecting an intermediate path which exactly predicts the net outcome of all the various elements over a 75-year period. However, the projections do represent a "best estimate" as of any point in time. As such, the long-range projections provide a valuable guide to trends which indicate any imbalance in the system, allowing Congress to make necessary corrections gradually and thus avoid sudden shocks that the system would have difficulty absorbing, and that taxpayers and beneficiaries would have difficulty accepting. The intermediate assumptions are generally considered to be an acceptable gauge of a long-range soundness. Using those assumptions, the system is considered to be sound if income is sufficient over the 75-year period to meet outgo.

III. The Current Status of the Program

Over the period 1973 to 1977, the actuarial forecasts of the financial condition of social security prepared by the Board of Trustees repeatedly warned that the programs were not adequately financed. Moreover, these forecasts grew dramatically worse from one report to the next. In 1973, the Board of Trustees reported a long-range deficit in the old age and survivors insurance (OASI) and disability insurance (DI) trust funds of 0.32 percent of taxable payroll, an amount equal to slightly less than 3 percent of the expected expenditures of the program. No financial difficulties were foreseen for the next 5 years, and it was estimated that trust fund reserves on hand at the beginning of 1977 would amount to more than 9 month's worth of benefits. In 1977, just 4 years later, the trustees were projecting a long-range deficit of 8.2 percent of taxable payroll, an amount equal to more than 40 percent of the expected expenditures of the programs. Moreover, it was estimated then that the assets of the DI trust fund would be exhausted by 1979, the assets of the OASI trust fund would be exhausted by the early-1980's, and the assets of the hospital insurance (HI) trust fund would be exhausted by the late 1980's.

In response to this deteriorating financial situation, legislation was enacted in 1977 which constrained the overall level of future benefits in the long term, and also provided for additional income by increasing both the social security tax rates in the near term and the amount of annual earnings subject to social security taxation.

The changes enacted in 1977 were projected at that time to reduce the long-term deficit to 0.4 percent and to be sufficient to assure adequate funds to meet benefit payments in the cash benefits programs until some time beyond the year 2025, although earlier action would be required to deal with the deficits in the HI program. The 1977 projections proved inaccurate in the short run, however, because of adverse economic conditions.

Since 1977, the poor performance of the economy has been reflected in increasingly gloomy projections in each year's trustees' report. Given the 1980 trustees' report projections and the Carter administration's July 1980 forecast, Congress found it necessary to reallocate a greater portion of overall social security tax receipts to the OASI trust fund. H.R. 7670, as passed by the House and Senate, reallocated revenues from the DI program to the OASI program for calendar years 1980 and 1981. President Carter signed the measure on October 9, 1980 (Public Law 96-403). This reallocation of the tax rates eliminated the possibility of a financing deficiency through the end of 1981. (The measure reshuffled the tax allocations to the two funds only for 1980 and 1981). The old law allocations were not altered for 1982 and later. This action was intended to give the

committees and Congress time to consider the various alternatives to solve the system's financing problems.

In February 1981, President Reagan announced his "program for economic recovery" which called for both reductions in Federal expenditures and taxes. Various social security cutbacks were included in the budget reductions. They involved such changes as eliminating the "minimum benefit," phasing out the student benefit, limiting eligibility for the lump sum death benefit and tightening eligibility for disability benefits. Many of these proposals, as well as others added by the House Committee on Ways and Means, were eventually enacted as part of the "Omnibus Budget Reconciliation Act of 1981" passed by Congress in July 1981 and signed into law by President Reagan on August 13, 1981 as Public Law 97-35. These changes were estimated to reduce OASDI and HI expenditures by approximately $27 billion over the calendar year 1981-86 period.

Although primarily motivated as budget reduction measures, these provisions were also expected to help mitigate the system's financial problems. The 1981 intermediate II-B Trustees' forecast, updated in the fall of 1981 to take account of the budget reconciliation measures, indicated that "interfund borrowing" or a tax reallocation would be a sufficient legislative measure to avoid financial problems at least for the next few years, but would be inadequate to avoid financial problems later on.

This forecast was not altered significantly by the enactment of Public Law 97-123 in December 1981 which restored the minimum benefit and authorized interfund borrowing for one year between the OASI, DI, and HI trust funds. Interfund borrowing assured that the OASI trust fund would remain solvent until mid-1983.

The long range saving from the Reconcilation Act was estimated to be 0.17 percent of taxable payroll under the intermediate II-B assumptions—thereby bringing about a small reduction in the long run deficit. Public Law 97-123 had only a marginal effect on the long run situation.

In April 1982 the 1982 Trustees' Report was issued. Its two intermediate forecasts showed that the OASI trust fund would run into trouble in mid-1983, and that interfund borrowing beyond that point would only postpone the problem for a year or so. (The optimistic assumptions, however, showed that interfund borrowing would be a sufficient measure to keep the system in sound shape.) The long run forecasts were about the same as in the December 1981 forecast (when Congress adopted the limited interfund borrowing provision), showing just a slight worsening, mostly due to technical forecasting changes.

Later in the summer President Reagan's mid-session (July) 1982 budget estimates showed a gloomier forecast than was projected in his February budget. These later estimates were very close to those reflected under the intermediate II-B assumptions in the 1982 Trustees' Report, showing that all three funds together (assuming further interfund borrowing) would be unable to meet their obligations in mid-1984.

Shortly after this forecast was made the Congress passed the Tax Equity and Fiscal Responsibility Act of 1982. While the social security cash programs were not affected, the new law calls for

substantial changes in the medicare program. These changes are expected to improve the financial condition of the medicare program by creating nearly $16 billion in outlay reductions and $11 billion in new revenues over the next 5 years (1983–87). Consequently, the overall condition, of the social security system was improved slightly. This improvement, however, was not expected to eliminate the system's near-term problem, but only push the potential insolvency point back a few months possibly into late 1984 or early 1985, as opposed to mid-1984 (assuming interfund borrowing were permitted to continue).

More detailed information about the financial effects of recent legislation on the social security program is provided in section VIII of this report.

THE SHORT-RANGE SITUATION

The income and outgo of the social security funds are highly sensitive to changes in economic conditions. High rates of unemployment, for example, tend to depress social security tax collections while high rates of inflation increase tax collections but even more subtantially increase benefit outgo.

On December 31, 1982, the old-age and survivors' insurance trust fund borrowed $13.5 billion from the disability insurance and health insurance trust funds in order to assure the timely payment of benefits through June 1983. OASI borrowed a total of $17.5 billion from DI and HI from October to December of last year including the $13.5 billion borrowed on December 31, 1982.

Under the most recent forecasts issued by the administration (intermediate II–B and pessimistic updated to take account of the 1982 Tax Act) as well as under the most recent CBO forecast (which also takes into account the Tax Act), the balance in the OASI fund will decline such that only the availability of funds borrowed from DI and HI will allow benefits to be paid on time through June 1983. Because of the expiration of that borrowing authority, under all these forecasts the OASI program will be unable to pay benefits on time beginning on July 3, 1983.

The reserve balance of the three trust funds at the beginning of 1983 are shown in the following table.

TABLE 14.—SOCIAL SECURITY TRUST FUND RESERVES: JANUARY 1, 1983

Trust fund	Reserves (in billions)	Reserves at end of 1982 as percent of 1983 outgo
OASI	[1] $21.7	14
DI	2.7	15
HI	8.3	23
OASDI	24.4	14
OASDHI	32.7	15

[1] Includes $17.5 billion, borrowed from DI and HI trust funds.

An extension of the interfund borrowing authority would permit the timely payment of benefits through 1983 under all three sets of assumptions. The estimated date beyond which benefits could not be paid timely would range from early to late 1984, depending on which of the three forecasts is examined. However, it must be remembered that the funds are in fact statutorily separate. Legislation would have to be enacted to permit a surplus in one fund to be used to meet a deficit in another fund. Also, the more favorable short-range situation of the combined funds largely results from very near-term surpluses in the HI trust fund. Over the next 25 years, however, that fund is projected to be seriously underfunded. Thus, any shifting of funds from HI to OASI will aggravate the long-range actuarial imbalance in that program.

Under fairly pessimistic economic assumptions for the rest of this decade (characterized to be a "sluggish" economy), the National Commission on Social Security Reform has estimated that OASDI alone will need between $150-200 billion through 1989, to guarantee benefit payments and to build up a minimal reserve of 15 percent of a year's benefit payments by 1989. The HI fund faces no immediate problem, but a more serious shortfall emerges beginning in 1987. This HI shortfall is projected to increase each year so that by 1990 or so, the fund will be permanently depleted, with no projected recovery. (More detailed data about these forecasts are provided in section V of this report.)

As shown in table 15, the cumulative deficit in OASDI for the period 1983-89 totals $72.6 billion under Trustees' intermediate assumptions. Counting the $18.9 billion in OASDI reserves at the start of 1983, this leaves a cumulative deficiency of resources for OASDI of $53.7 billion by the end of 1989. While this deficit is substantial, it is important to note that it represents only a 3.3 percent deficit during this period. Additional funding of this amount however, would not be sufficient to make timely benefit payments due both to fluctuations in income and outgo during a year and the uncertainty of economic projections.

TABLE 15.—RESOURCE CHANGES DURING CALENDAR YEARS 1983-89 IN SOCIAL SECURITY TRUST FUNDS UNDER PRESENT LAW—VARIOUS ASSUMPTIONS [1]

[In billions]

Fund	Estimated income to be received during calendar year period, 1983-89	Outgo during calendar year period 1983-89	Cumulative deficit 1983-89 [2]	Resources on hand at start of CY 1983 (reserves)	Net deficiency 1983-89	Percent deficiency 1983-89
CBO economic assumptions: [3]						
OASI	$1,235.3	$1,411.7	−$176.4	$18.0	−$158.4	−11.2
OASI and DI	1,513.3	1,562.2	−48.9	19.6	−29.3	−1.9
OASI, DI, and HI	1,927.4	1,992.7	−65.3	34.3	−31.0	−1.6

TABLE 15.—RESOURCE CHANGES DURING CALENDAR YEARS 1983–89 IN SOCIAL SECURITY TRUST FUNDS UNDER PRESENT LAW—VARIOUS ASSUMPTIONS [1]—Continued

[In billions]

Fund	Estimated income to be received during calendar year period, 1983–89	Outgo during calendar year period 1983–89	Cumulative deficit 1983–89 [2]	Resources on hand at start of CY 1983 (reserves)	Net deficiency 1983–89	Percent deficiency 1983–89
1982 Trustees' II–B assumptions:						
OASI	1,261.4	1,462.9	−201.5	17.3	−184.2	−12.6
OASI and DI	1,550.9	1,623.5	−72.6	18.9	−53.7	−3.3
OASI, DI, and HI	1,982.2	2,050.4	−68.2	34.6	−33.6	−1.6
1982 Trustees' pessimistic assumptions:						
OASI	1,242.8	1,593.4	−350.6	18.0	−332.6	−20.9
OASI and DI	1,539.2	1,766.2	−227.0	19.6	−207.4	−11.7
OASI, DI, and HI	1,971.9	2,239.9	−268.0	34.5	−233.5	−10.4

[1] All estimates take into account the effects of P.L. 97–248, the Tax Equity and Fiscal Responsibility Act of 1982. The Trustees' report estimates assume the continuation of the hospital cost containment provision of TEFRA beyond 1985, the expiration date in present law. CBO estimates do not.

[2] Calculated as income minus outgo, allowing for no reserves.

[3] Preliminary CBO estimates. Estimates for 1982 through 1985 are based on economic assumptions used for the September 1982 CBO budget update. Projections for the remainder of the period are based on economic assumptions representing a quick return to a non-cyclical trend growth path which incorporates the average post-World War II productivity growth rate of approximately 2 percent per year.

The following tables provide detailed projections (through calendar year 1990) of income and outgo for the three social security trust funds under CBO assumptions, the Trustees' intermediate II–B assumptions, and the Trustees' pessimistic assumptions. Estimates computed on a fiscal year basis under these same economic assumptions appear as tables 25, 26, and 27, below. Under each of the assumptions, OASI, which has been running a deficit since 1974, is expected to spend more than it takes in (i.e., run an annual deficit) in each year through 1990 and until the mid-1990's under the intermediate and pessimistic assumptions. Under CBO and the Trustees' intermediate assumptions, the annual deficit in OASI is $20–$40 billion; under the Trustees' pessimistic assumptions, the annual deficit is considerably higher, exceeding $50 billion in 1987 and reaching $81 billion by 1989. (See tables 16–18.)

TABLE 16.—ESTIMATED TRUST FUND OPERATIONS: CBO ECONOMIC ASSUMPTIONS, CY 1980–90 [1]

[In billions]

Calendar year	Income [2]					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	125.4	17.1	142.4	35.7	178.2	126.7	17.7	144.4	30.7	175.1
1982	138.6	17.1	155.7	31.5	187.2	142.0	18.6	160.6	35.6	196.2
1983	134.7	25.2	159.9	42.7	202.6	156.1	19.5	175.6	39.4	215.0
1984	145.3	28.0	173.3	46.8	220.1	169.4	19.7	189.1	44.1	233.2
1985	162.7	35.3	198.0	52.7	250.7	182.9	19.8	202.7	50.1	252.7
1986	176.2	40.3	216.5	60.9	277.4	198.7	20.5	219.2	59.4	278.5
1987	190.3	44.7	235.0	65.7	300.8	215.7	21.6	237.3	69.1	306.4
1988	205.4	49.7	255.1	70.4	325.5	234.8	23.5	258.3	78.8	337.1
1989	220.7	54.8	275.5	74.8	350.3	254.1	25.9	280.0	89.7	369.8
1990	254.5	67.8	322.3	79.0	401.2	274.4	28.3	302.7	102.1	404.8

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$1.8	−$2.0	−$3.8	−$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23.0	35.0	25.0	52.0	29.0
1981	−1.3	−0.6	−1.9	5.0	3.1	21.5	3.0	24.5	18.7	43.3	18.0	21.0	18.0	45.0	23.0
1982	−3.4	−1.5	−4.9	−4.1	−9.0	18.0	1.6	19.6	14.6	34.3	15.1	16.4	15.3	52.6	22.1
1983	−21.4	5.7	−15.7	3.3	−12.4	−3.4	7.3	3.9	17.9	21.8	11.5	8.3	11.2	37.1	15.9
1984	−24.1	8.3	−15.8	2.7	−13.1	−27.6	15.6	−12.0	20.6	8.7	−2.0	37.2	2.1	40.6	9.4
1985	−20.2	15.5	−4.7	2.6	−2.0	−47.8	31.2	−16.6	23.2	6.6	−15.1	78.9	−5.9	41.1	3.4
1986	−22.5	19.8	−2.7	1.5	−1.1	−70.3	51.0	−19.3	24.8	5.4	−24.0	152.2	−7.6	39.1	2.4

1987	−25.4	23.1	−2.3	−3.4	−5.6	−95.6	74.1	−21.5	21.4	−0.1	−32.6	236.1	−8.1	35.8	1.8
1988	−29.4	26.2	−3.2	−8.4	−11.6	−125.0	100.3	−24.7	13.0	−11.7	−40.7	315.8	−8.3	27.1	−0.1
1989	−33.4	28.9	−4.5	−14.9	−19.5	−158.5	129.2	−29.3	−1.9	−31.2	−49.2	387.6	−8.8	14.5	−3.2
1990	−19.9	39.5	19.6	−23.1	−3.6	−178.5	168.7	−9.8	−25.0	−34.8	−57.8	456.8	−9.7	−1.9	−7.7

[1] Includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982, including the expiration of the hospital cost containment provision (Section 101) in 1985. In calendar years when January 1 occurs on a Friday, that year's benefit payment is paid in December of the preceding year; CBO estimates do not take this effect into account. Estimates are preliminary CBO estimates. Estimates for 1982 through 1985 are based on economic assumptions used for the September 1982 CBO budget updates. Projections for the remainder of the period are based on economic assumptions representing a quick return to a non-cyclical trend growth path which incorporates the average post World War II productivity growth rate of approximately 2 percent per year.

[2] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances and certain general fund transfers. Income in fiscal year 1983 reflects interfund transfers as authorized under P.L. 97-123. In order to better illustrate the operations of the trust funds under extended interfund or other types of borrowing or under tax rate reallocation, estimated interest payments owed by a trust fund when it shows a deficit are included as negative values in the income estimates of that trust fund.

TABLE 17.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES' REPORT INTERMEDIATE (II-B) ASSUMPTIONS, CALENDAR YEARS 1980-90 [1]

[In billions]

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	125.4	17.1	142.4	35.7	178.2	126.7	17.7	144.4	30.7	175.1
1982	137.7	16.6	154.3	32.6	187.0	141.9	18.1	160.0	35.6	195.6
1983	136.5	26.1	162.6	44.0	206.6	156.5	19.0	175.5	40.8	216.3
1984	149.2	29.6	178.8	48.4	227.2	173.0	19.9	192.9	46.3	239.2
1985	167.3	37.5	204.8	54.5	259.3	190.9	21.3	212.2	51.9	264.1
1986	180.9	42.0	222.9	63.2	286.1	208.5	22.7	231.2	58.8	290.0
1987	194.5	46.5	241.0	68.5	309.5	226.3	24.2	250.6	66.9	317.5
1988	209.1	51.3	260.4	73.8	334.2	244.5	25.8	270.3	76.0	346.4
1989	223.9	56.5	280.4	78.9	359.3	263.2	27.6	290.8	86.1	376.9
1990	257.7	69.6	326.7	83.8	410.5	282.2	29.4	311.6	96.8	408.4

TABLE 17.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES' REPORT INTERMEDIATE (II–B) ASSUMPTIONS, CALENDAR YEARS 1980–90 [1]—Continued

[In billions]

Calendar year	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−1.8	−2.0	−3.8	0.5	−3.3	22.8	3.6	26.5	13.7	40.2	23	35	25	52	29
1981	−1.3	−0.6	−1.9	5.0	3.1	21.5	3.0	24.5	18.7	43.3	18	21	18	45	23
1982	−4.2	−1.5	−5.7	−3.0	−8.6	17.3	1.6	18.9	15.8	34.6	15	17	15	53	22
1983	−20.0	7.1	−12.8	3.2	−9.6	−2.6	8.7	6.1	19.0	25.0	11	8	11	39	16
1984	−23.8	9.7	−14.1	2.1	−12.0	−26.4	18.4	−8.0	21.0	13.0	−2	44	3	41	10
1985	−23.6	16.2	−7.4	2.6	−4.8	−50.0	34.6	−15.4	23.6	8.2	−14	86	−4	41	5
1986	−27.6	19.2	−8.4	4.4	−3.9	−77.6	53.8	−23.8	28.0	4.3	−24	152	−7	40	3
1987	−31.8	22.2	−9.6	1.6	−7.9	−109.4	76.1	−33.4	29.7	−3.7	−34	222	−9	42	1
1988	−35.4	25.5	−9.9	−2.3	−12.2	−144.9	101.6	−43.3	27.4	−15.9	−45	294	−12	39	−1
1989	−39.3	28.9	−10.4	−7.2	−17.7	−184.2	130.4	−53.7	20.2	−33.6	−55	368	−15	32	−4
1990	−25.1	40.2	15.1	−13.0	2.1	−209.3	170.6	−38.7	7.2	−31.5	−65	443	−17	21	−8

[1] Includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982. Assumes that hospital cost containment provision will be extended beyond 1985, the expiration date in P.L. 97–248 (TEFRA).

1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $11.6 billion would have been transferred to OASI in 1982; $6.2 billion from DI and $5.5 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due.

TABLE 18.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES' REPORT PESSIMISTIC ASSUMPTIONS, CALENDAR YEARS 1980–90 [1]

[In billions]

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	125.4	17.1	142.4	35.7	178.2	126.7	17.7	144.4	30.7	175.1
1982	138.4	16.6	155.1	31.8	186.9	141.9	18.1	160.0	35.6	195.6
1983	133.3	25.6	158.9	43.0	201.9	157.7	19.1	176.8	40.8	217.6
1984	142.9	28.7	171.6	47.0	218.6	177.2	20.3	197.5	46.7	244.2
1985	162.3	37.1	199.4	53.7	253.2	199.8	22.2	222.0	54.2	276.3
1986	177.3	42.4	219.7	63.1	282.8	224.0	24.3	248.3	63.7	312.0
1987	192.6	48.0	240.6	69.3	309.9	250.2	26.5	276.6	75.2	351.9
1988	208.8	54.0	262.8	75.3	338.2	277.7	28.9	306.6	88.7	395.3
1989	225.6	60.6	286.2	81.1	367.3	306.8	31.6	338.4	104.2	442.6
1990	262.5	76.1	338.5	86.5	425.0	337.5	34.4	372.0	121.7	493.6

	Net increase in funds				Total	Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI		OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$1.8	−$2.0	−$3.8	−$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23	35	25	52	29
1981	−1.3	−0.6	−1.9	5.0	3.1	21.5	3.0	24.5	18.7	43.3	18	21	18	45	23
1982	−3.5	−1.5	−5.0	−3.8	−8.7	18.0	1.6	19.6	15.0	34.5	15	17	15	53	22
1983	−24.4	6.5	−17.9	2.2	−15.6	−6.4	8.1	1.7	17.2	18.9	11	8	11	37	16
1984	−34.3	8.4	−25.9	.2	−25.7	−40.7	16.4	−24.3	17.5	−6.8	−4	40	1	37	8

TABLE 18.—ESTIMATED TRUST FUND OPERATIONS: 1982 TRUSTEES' REPORT PESSIMISTIC ASSUMPTIONS, CALENDAR YEARS 1980–90 [1]—Continued

[In billions]

	Net increase in funds				Total	Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI		OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1985	−37.5	14.9	−22.6	−.5	−23.1	−78.2	31.4	−46.8	17.0	−29.9	−20	74	−11	32	−2
1986	−46.7	18.2	−28.5	−.6	−29.1	−124.9	49.5	−75.4	16.4	−59.0	−35	129	−19	27	−10
1987	−57.6	21.5	−36.1	−5.9	−42.0	−182.5	71.0	−111.4	10.5	−101.0	−50	187	−27	22	−17
1988	−68.9	25.1	−43.8	−13.3	−57.1	−251.3	96.1	−155.2	−2.9	−158.1	−66	246	−36	12	−26
1989	−81.2	29.0	−52.2	−23.1	−75.3	−332.6	125.1	−207.4	−26.0	−233.4	−82	305	−46	−3	−36
1990	−75.1	41.6	−33.5	−35.2	−68.6	−407.6	166.8	−240.9	−61.1	−302.0	−99	363	−56	−21	−47

[1] Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982. Assumes that hospital cost containment provision will be extended beyond 1985, the expiration date in P.L. 97–248 (TEFRA).

1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $12.4 billion would have been transferred to OASI in 1982, $6.1 billion from DI and $6.3 from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1988 and later are theoretical, since the fund would be depleted in 1988 under this set of assumptions.

Table 19, which condenses the information in tables 16-18, illustrates the status of the trust funds in a different way. Reserve ratios (i.e., assets at the beginning of the year as a percentage of outgo during the year) are shown for the two cash benefit programs (OASI and DI) combined, and for all three programs. Under each set of economic assumptions, reserves as a fraction of outgo (for OASI in combination with DI, as well as with DI and HI), are projected to fall continuously between now and the end of the decade, becoming negative for OASDI in 1985 and for OASDHI sometime between 1985 and 1989. Insolvency would occur some years prior to these dates—in 1984 for OASDHI—when reserves first fall below the amount required to pay one month's benefits (about 9 percent of outgo.).

TABLE 19.—OASDI AND OASDHI RESERVE RATIOS [1] UNDER VARIOUS ASSUMPTIONS, 1980-90

Calendar year	Assets at beginning of year as a percentage of outgo during year	
	OASDI	OASDHI
1982 trustees report "II-B" assumptions:		
1980	25	29
1981	18	23
1982	15	22
1983	11	16
1984	3	10
1985	−4	5
1986	−7	3
1987	−9	1
1988	−12	−1
1989	−15	−4
1990	−17	−8
1982 trustees report pessimistic assumptions:		
1980	25	29
1981	18	23
1982	15	22
1983	11	16
1984	1	8
1985	−11	−2
1986	−19	−10
1987	−27	−17
1988	−36	−26
1989	−46	−36
1990	−56	−47
CBO economic assumptions:		
1980	25	29
1981	18	23
1982	15	22
1983	11	16
1984	2	9
1985	−6	3

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TABLE 19.—OASDI AND OASDHI RESERVE RATIOS [1] UNDER VARIOUS ASSUMPTIONS, 1980–90—Continued

Calendar year	Assets at beginning of year as a percentage of outgo during year	
	OASDI	OASDHI
1986	−8	2
1987	−8	2
1988	−8	0
1989	−9	−3
1990	−10	−8

[1] Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982.

THE LONG-RANGE SITUATION

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

The long-range status of the social security trust funds is ordinarily expressed in terms of "percent of taxable payroll" rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of "1 percent of taxable payroll," this means that the social security tax rates now in the law would have to be increased by 0.5 percent points on employee and employer, each, in order to pay for the benefits due under present law. (Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions.)

Table 20 provides estimates of the long-range actuarial status of the social security cash benefit programs over the next 75 years. These estimates are based on the intermediate II-B assumptions used in the 1982 Trustees' report, updated to take account of the 1982 Tax Act. The table shows that the cash benefits trust funds, despite their deficit in the next few years, have a surplus over the next 25 years.

Beginning in 1990, however, and continuing over the next two decades, under intermediate assumptions the situation reverses and income substantially exceeds outgo. This is partly a result of increases in social security taxes scheduled under present law, partly a result of the fact that the cohort of workers retiring at that time were born in the 1930's and early 1940's, low birth rate

years, and partly because of the assumption of a much improved economic picture.

As shown in table 21, OASDI reserves as a fraction of outgo are projected to rise continuously from 2 percent in 1993 to 179 percent in 2010. Over the 25-year period 1982–2006, this translates into a surplus of 0.66 percent, or in 1983 dollars, about $10 billion per year.

However, the HI program has, over that same period, a deficit of more than 2 times the magnitude of the cash benefit surplus. When all three funds are combined, the programs have an aggregate deficit both over the next 25 years and throughout the 75-year valuation period.

Over the next 75 years, the cash benefits programs have a deficit of 1.80 percent of payroll. This means that—under the actuaries' best current estimates—social security taxes would have to be increased by a combined 1.80 percentage points (i.e., 0.9 percentage points for employers and employees) for each of the next 75 years in order to bring the system into balance.

If the deficit in the OASDI program is not addressed in the near term, it becomes substantially larger on an annual basis in the future. For the last one-third of the 75-year period, an average annual deficit of 4.39 percent of taxable payroll is projected.

Unlike the OASDI program, the 75-year estimates are not made for the HI program to show the long range condition of that program. HI estimates only extend into the future for a 25-year period. Unlike the medium-range OASDI financial situation, the 25-year forecast for the HI program is very adverse. As the following table shows, the HI program is projected to take in revenues that on average are equal to 2.86 percent of taxable payroll, while its outgo on average will equal 4.34 percent of taxable payroll. Thus, the HI program is projected to have an average deficit for the medium-term future of 1.48 percent of taxable payroll.

When the OASDI surplus and this HI deficit are joined in one set of medium-range projections, the OASDHI programs combined show a medium range deficit equal to 0.82 percent of taxable payroll. Thus, on an aggregate basis, the three programs supported by the payroll tax are insufficiently financed over the next 25 years—i.e., even assuming the OASDI surpluses were used for the HI program, the sytem in aggregate is underfinanced.

TABLE 20.—LONG-RANGE STATUS OF THE OASDHI TRUST FUNDS

[Percent of taxable payroll]

	25-yr periods		2032–2056	75-yr period 1982–2056
	1982–2006	2007–2031		
OASDI:				
Income	12.01	12.40	12.40	12.27
Outgo	11.35	14.08	16.79	14.07
Balance	.66	−1.68	−4.39	−1.80
HI:				
Income	2.86	(1)	(1)	(1)

TABLE 20.—LONG-RANGE STATUS OF THE OASDHI TRUST FUNDS—Continued

[Percent of taxable payroll]

	25-yr periods		2032–2056	75-yr period 1982–2056
	1982–2006	2007–2031		
Outgo	4.34	(1)	(1)	(1)
Balance	−1.48	(1)	(1)	(1)
OASDHI:				
Income	14.87	(1)	(1)	(1)
Outgo	15.69	(1)	(1)	(1)
Balance	−.82	(1)	(1)	(1)

[1] 75-year estimates are not completed by HCFA because of a high degree of uncertainty in projecting hospital costs through this period.

Source: SSA, HCFA based on 1982 trustees' Intermediate II–B assumptions, adjusted to reflect enactment of the Tax Equity and Fiscal Responsibility Act of 1982.

Under the intermediate (II–B) projections which show surpluses in OASDI in the 1990's and through the balance of the 25-year period, OASDI is projected to run large deficits beginning around 2015. As shown in table 21, the cost of OASDI rises after the turn of the century, reaching 17 percent of payroll by 2035. (In other words, the combined employee-employer tax rate in 2035 would have to be 17 percent in order to finance retirement, survivors, and disability benefits alone.) Under intermediate assumptions, the OASDI deficit becomes so large that the trust fund ratio is projected to fall in a 10-year period from 179 percent in 2015 to 33 percent in 2025, and reserves would be totally exhausted a few years later.

TABLE 21.—COMBINED OASDI OUTGO AS A PERCENT OF TAXABLE PAYROLL AND COMPARISON WITH SCHEDULED TAX RATE [1]

[In percent]

Calendar year	OASDI outgo	Tax rate	Difference	Trust fund ratio
1981	11.30	10.70	−0.60	18
1982	11.76	10.80	−.96	15
1983	11.64	10.80	−.84	11
1984	11.59	10.80	−.79	3
1985	11.66	11.40	−.26	−4
1986	11.68	11.40	−.28	−7
1987	11.69	11.40	−.29	−9
1988	11.66	11.40	−.26	−12
1989	11.63	11.40	−.23	−15
1990	11.62	12.40	.78	−17
1991	11.57	12.40	.83	−12
1992	11.52	12.40	.88	−5
1993	11.49	12.40	.91	2
1994	11.44	12.40	.96	9
1995	11.40	12.40	1.00	17

TABLE 21.—COMBINED OASDI OUTGO AS A PERCENT OF TAXABLE PAYROLL AND COMPARISON WITH SCHEDULED TAX RATE [1]—Continued

[In percent]

Calendar year	OASDI outgo	Tax rate	Difference	Trust fund ratio
1996	11.33	12.40	1.07	26
1997	11.24	12.40	1.16	35
1998	11.16	12.40	1.24	45
1999	11.08	12.40	1.32	56
2000	11.02	12.40	1.38	67
2001	10.96	12.40	1.44	79
2002	10.91	12.40	1.49	92
2003	10.89	12.40	1.51	105
2004	10.89	12.40	1.51	118
2005	10.94	12.40	1.46	131
2010	11.52	12.40	.88	179
2015	12.81	12.40	−.41	179
2020	14.44	12.40	−2.04	127
2025	15.96	12.40	−3.56	33
2030	16.82	12.40	−4.42	(2)
2035	17.01	12.40	−4.61	(2)
2040	16.79	12.40	−4.39	(2)
2045	16.65	12.40	−4.25	(2)
2050	16.71	12.40	−4.31	(2)
2055	16.80	12.40	−4.40	(2)
2060	16.80	12.40	−4.40	(2)
25-year averages:				
1982–2006	11.35	12.01	.66	.....
2007–2031	14.08	12.40	−1.68	.....
2032–2056	16.79	12.40	−4.39	.....
75-year average:				
1982–2056	14.07	12.27	−1.80	.....

[1] Based on 1982 Trustees Report, alternative II–B assumptions, including effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] The fund is projected to be exhausted and not to recover before the end of the projection period.

IV. Resolving the Financing Problem—Increasing Revenue or Decreasing Outgo

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

INCREASING REVENUES

The most direct method of increasing revenues to the program is through an increase in the social security tax rate or in the taxable earnings base (the maximum amount of annual earnings to which the tax rate applies). The 1977 amendments provided for significant increases in both of these elements. The increased income to the program in 1982–1990 from the tax rate and base increases is shown in table 22. While a tax rate increase results in no additional future outgo, an earnings base increase will ultimately result in $1 of additional outgo for each $2 of additional income it generates.

TABLE 22.—ADDITIONAL TAX CONTRIBUTION INCOME TO THE OASI, DI, AND HI TRUST FUNDS RESULTING FROM SCHEDULED INCREASES IN TAX RATES AND THE TAXABLE EARNINGS BASE FOR 1982–90 [1]

[In billions]

Calendar year	Additional tax contributions due to—								
	Increases in the taxable earnings base over the 1981 level			Increases in tax rates over the 1981 level			Increases in both the taxable earnings base and tax rates over 1981 level		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$1.3	$0.3	$1.6	$0.3	.....	$0.3	$1.6	$0.3	$1.90
1983	5.1	1.2	6.3	1.4	.....	1.4	6.5	1.2	7.7
1984	8.7	2.1	10.7	1.6	.....	1.6	10.3	2.1	12.4
1985	13.3	3.2	16.5	11.3	$1.6	12.9	25.4	4.9	30.3
1986	19.0	4.6	23.6	12.6	5.2	17.7	32.8	10.2	43.0
1987	25.4	6.1	31.5	13.3	5.6	18.9	40.4	12.4	52.7
1988	33.0	7.9	40.9	14.0	5.9	19.9	49.2	14.7	63.9
1989	41.5	10.0	51.5	14.7	6.2	21.0	59.0	17.3	76.3
1990	51.0	12.2	63.2	36.5	6.5	43.0	95.1	20.1	115.3

[1] The above estimates are based on the economic assumptions underlying the intermediate II–B case in the 1982 trustees report. The combined effect of both rate and base changes is larger than the sum of the components due to interaction.

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

Other potential revenue sources sometimes advocated include general revenues or earmarked revenues from some source other than the payroll tax such as an income surtax, a value-added tax, excise taxes, or taxing social security benefits.

Table 23 shows the amount of additional income that would need to be raised through one or more of these devices in order to insure the financial solvency of the system through the 1980's.

TABLE 23.—ADDITIONAL RESOURCES REQUIRED UNDER PRESENT LAW IN THE NEAR TERM TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS [1]

[In billions of dollars]

	Additional resources required [2]		
	CBO	1982 trustees' intermediate (II–B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1986:			
9 percent (1 mo)	18.5	16	52
13 percent	29.6	26	62
20 percent	49.1	44	83
30 percent	77.0	70	108
40 percent	104.8	96	136
50 percent (6 mo)	132.7	123	163
Percent of 1 year's expenditures desired at beginning of 1988:			
9 percent (1 mo)	30.5	30	115
13 percent	43.9	40	126
20 percent	67.5	60	151
30 percent	101.2	88	180
40 percent	135.0	118	212
50 percent (6 mo)	168.7	150	245
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	67.6	59	225
13 percent	83.8	70	239
20 percent	112.2	93	264
30 percent	152.6	123	301
40 percent	193.1	161	339
50 percent (6 mo)	233.6	190	378

[1] Table includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] CBO estimates and trustees estimates are not directly comparable because CBO numbers include added interest on larger trust fund balances, while trustees numbers do not.

DECREASING OUTGO

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

In general, proposals to improve the program's financial status by reducing benefit costs can be categorized as (1) targeted proposals designed to eliminate specific types of benefits or (2) general reductions which apply in a substantially equal way to all beneficiaries (or at least to all future beneficiaries).

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

Table 24 shows the amount of benefit reductions that would be needed in order to insure the financial solvency of the social security system during the next decade.

TABLE 24.—BENEFIT REDUCTIONS REQUIRED UNDER PRESENT LAW IN THE NEAR TERM TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS [1]

[In billions of dollars]

	Benefit reductions required [2]		
	CBO	1982 trustees' intermediate (II–B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1986:			
9 percent (1 mo)	18.0	16	49
13 percent	28.5	22	58
20 percent	46.4	41	76
30 percent	70.9	63	97
40 percent	94.0	84	117
50 percent (6 mo)	116.0	103	136

TABLE 24.—BENEFIT REDUCTIONS REQUIRED UNDER PRESENT LAW IN THE NEAR TERM TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS [1]—Continued

[In billions of dollars]

	Benefit reductions required [2]		
	CBO	1982 trustees' intermediate (II-B)	1982 trustees' pessimistic assumptions
Percent of 1 year's expenditures desired at beginning of 1988:			
9 percent (1 mo)	30.0	29	113
13 percent	42.9	39	123
20 percent	65.2	58	141
30 percent	96.0	84	168
40 percent	125.8	109	194
50 percent (6 mo)	154.6	134	218
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	66.8	60	221
13 percent	82.4	70	232
20 percent	109.3	90	253
30 percent	146.8	126	293
40 percent	183.3	159	323
50 percent (6 mo)	219.0	193	352

[1] Table includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] CBO estimates and trustees estimates are not directly comparable because CBO numbers include added interest on larger trust fund balances, while trustees numbers do not.

V. Additional Data Dealing With Short-Range Projections

The following tables provide detailed projections of income and outgo and the difference between income and outgo for the three funds over the next 10 years under CBO assumptions, trustees intermediate II-B assumptions, and trustees pessimistic assumptions. The trustees optimistic and intermediate II-A projections have been omitted because the continued sluggish performance of the economy since they were issued in April 1982 has shown them to be too optimistic.

TABLE 25.—ESTIMATED OPERATIONS OF THE OASI, DI AND HI TRUST FUNDS,[1] CBO ECONOMIC ASSUMPTIONS, FISCAL YEARS 1980–90

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI [2]	Total
1980	$100.1	$17.4	$117.4	$25.4	$142.8	$103.2	$15.3	$118.5	$24.3	$142.8
1981	121.6	13.0	134.6	32.9	167.4	122.3	17.3	139.6	29.3	168.8
1982	127.4	21.3	148.7	37.6	186.3	138.3	18.4	156.7	34.5	191.1
1983	144.5	18.7	163.2	35.7	198.9	152.6	19.2	171.8	37.8	209.5
1984	143.3	27.3	170.6	46.0	216.6	166.2	19.7	185.9	43.0	228.8
1985	158.9	33.6	192.5	51.5	243.9	179.0	19.7	198.7	48.6	247.2
1986	173.6	39.1	212.7	58.9	271.6	194.6	20.1	214.7	57.2	271.9
1987	186.9	43.3	230.2	64.6	294.8	211.3	21.2	232.5	66.9	299.4
1988	203.1	48.4	251.5	69.7	321.2	229.8	23.0	252.8	76.3	329.0
1989	217.7	53.2	270.9	74.0	344.9	249.4	25.3	274.7	86.9	361.5
1990	246.9	64.2	311.1	78.3	389.4	269.2	27.7	296.9	98.9	395.8

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$3.2	$2.1	−$1.1	$1.1	([3])	$24.6	$7.7	$32.2	$14.5	$46.7	27.0	37.0	28.0	55.0	33.0
1981	−0.7	−4.3	−5.0	3.6	−1.4	23.8	3.4	27.2	18.1	45.3	20.0	44.0	23.0	50.0	28.0
1982	−10.9	2.9	−8.0	3.1	−4.8	12.9	6.4	19.3	21.3	40.5	17.2	18.5	17.4	52.5	23.7

1983	−8.1	−0.5	−8.6	−2.1	−10.6	4.8	5.9	10.7	19.2	29.8	8.5	33.1	11.2	56.3	19.3
1984	−22.9	7.6	−15.3	3.0	−12.2	−18.4	13.5	−4.9	22.2	17.3	2.9	29.9	5.8	44.6	13.0
1985	−20.1	13.9	−6.2	2.9	−3.3	−38.2	27.4	−10.8	25.2	14.3	−10.1	68.7	−2.5	45.8	7.1
1986	−21.0	19.0	−2.0	1.7	−0.3	−59.2	46.4	−12.8	26.8	14.0	−19.6	136.4	−5.0	43.9	5.3
1987	−24.3	22.1	−2.3	−2.3	−4.6	−83.6	68.6	−15.0	24.5	9.5	−28.0	219.3	−5.5	40.1	4.7
1988	−26.7	25.4	−1.3	−6.6	−7.8	−110.2	94.0	−16.2	18.0	1.7	−36.4	298.6	−5.9	32.2	2.9
1989	−31.7	27.9	−3.8	−12.9	−16.6	−141.9	122.0	−19.9	5.1	−14.9	−44.2	372.2	−5.9	20.7	0.5
1990	−22.3	36.5	14.2	−20.6	−6.4	−164.2	158.4	−5.8	−15.5	−21.3	−52.7	439.7	−6.7	5.2	−3.8

[1] Includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982.
[2] Does not reflect the effects of the delay in periodic interim payments provided under Public Law 97–248.
[3] Less than $0.1 billion.

1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $12.4 billion would be transferred to OASI in 1982, $6.1 billion from DI and $6.3 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1988 and later are theoretical, since the fund would be depleted in 1988 under this set of assumptions.

TABLE 26.—ESTIMATED OPERATIONS FOR THE OASI, DI AND HI TRUST FUNDS,[1] 1982 TRUSTEES REPORT II–B ASSUMPTIONS, FISCAL YEARS 1980–90

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI [2]	Total
1980	$100.1	$17.4	$117.4	$25.4	$142.8	$103.2	$15.3	$118.5	$24.3	$142.8
1981	121.6	13.0	134.6	32.9	167.4	122.3	17.3	139.6	29.3	168.8
1982	126.8	21.3	148.1	37.6	185.7	138.0	18.0	156.0	34.4	190.4
1983	146.4	19.0	165.5	37.2	202.7	153.0	18.8	171.8	39.5	211.3
1984	147.2	28.6	175.8	47.5	223.3	168.7	19.5	188.2	45.0	233.2
1985	163.5	35.3	198.8	53.1	251.9	186.5	20.9	207.5	50.6	258.1
1986	178.4	40.7	219.0	61.2	280.2	204.0	22.4	226.4	56.8	283.3

TABLE 26.—ESTIMATED OPERATIONS FOR THE OASI, DI AND HI TRUST FUNDS,[1] 1982 TRUSTEES REPORT II–B ASSUMPTIONS, FISCAL YEARS 1980–90—Continued

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI[2]	Total
1987	191.4	44.9	236.4	67.3	303.7	221.9	23.8	245.7	64.7	310.5
1988	206.7	49.9	256.5	72.9	329.4	239.9	25.4	265.3	73.6	339.0
1989	221.1	54.8	275.9	78.0	353.9	258.5	27.1	285.7	83.5	369.1
1990	249.5	65.8	315.4	83.1	398.4	277.5	29.0	306.5	93.9	400.4

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$3.2	−$2.1	−$1.1	$1.1	[3]	$24.6	$7.7	$32.2	$14.5	$46.7	27	37	28	55	33
1981	−0.7	−4.3	−5.0	3.6	−1.4	23.8	3.4	27.2	18.1	45.3	20	44	23	50	28
1982	−11.2	3.3	−7.9	3.2	−4.7	12.7	6.7	19.3	21.3	40.6	17	19	17	53	24
1983	−6.5	.2	−6.3	−2.3	−8.6	6.2	6.9	13.1	19.0	32.0	8	35	11	54	19
1984	−21.5	9.1	−12.4	2.5	−9.9	−15.3	16.0	.6	21.5	22.1	4	35	7	42	14
1985	−23.0	14.3	−8.7	2.5	−6.2	−38.4	30.3	−8.1	24.0	15.9	−8	76	([2])	42	9
1986	−25.7	18.3	−7.4	4.4	−3.0	−64.0	48.6	−15.5	28.4	12.9	−19	135	−4	42	6

1987	−30.5	21.1	−9.4	2.6	−6.8	−94.5	69.7	−24.8	30.9	6.1	−29	204	−6	44	4
1988	−33.2	24.4	−8.8	−.7	−9.5	−127.7	94.1	−33.6	30.2	−3.4	−39	274	−9	42	2
1989	−37.4	27.7	−9.7	−5.4	−15.2	−165.1	−121.8	−43.8	24.8	−18.6	−49	347	−12	36	−1
1990	−28.0	36.9	8.9	−10.8	−1.9	−193.1	158.6	−34.5	13.9	−20.6	−60	420	−14	26	−5

[1] Includes effects of Tax Equity and Fiscal Responsibility Act of 1982.
[2] Does not reflect the effects of the delay in periodic interim payments provided under Public Law 97–248.
[3] Less than $0.1 billion.

1. The income futures for 1983, and the end-of-year asset figures for 1983 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97–123. Under this set of assumptions, a total of $11.6 billion would be transferred to OASI in 1983, $6.2 billion from DI and $5.5 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1991 are theoretical, since the fund would be depleted in 1991 under this set of assumptions.

TABLE 27.—ESTIMATED OPERATIONS OF THE OASI, DI AND HI TRUST FUNDS,[1] 1982 TRUSTEES REPORT PESSIMISTIC ASSUMPTIONS, FISCAL YEARS 1980–90

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI[2]	Total
1980	$100.1	$17.1	$117.4	$25.4	$142.8	$103.2	$15.3	$118.5	$24.3	$142.8
1981	121.6	13.0	134.6	32.9	167.4	122.3	17.3	139.6	29.3	168.8
1982	126.8	21.3	148.1	37.6	185.7	138.0	18.0	156.0	34.4	190.4
1983	145.4	18.7	164.1	35.8	199 9	153.6	18.9	172.5	39.5	212.0
1984	141.1	27.7	168.8	46.0	214.8	171.9	19.9	191.8	45.2	237.0
1985	158.8	34.8	193.5	52.2	245.7	194.1	21.7	215.8	52.4	268.2
1986	175.2	40.9	216.1	61.1	277.2	217.7	23.7	241.4	61.1	302.5
1987	189.9	46.1	235.9	68.0	303.9	243.5	25.9	269.4	72.2	341.6
1988	206.9	52.2	259.1	74.5	333.6	270.7	28.3	299.0	85.1	384.1

TABLE 27.—ESTIMATED OPERATIONS OF THE OASI, DI AND HI TRUST FUNDS,[1] 1982 TRUSTEES REPORT PESSIMISTIC ASSUMPTIONS, FISCAL YEARS 1980–90—Continued

[In billions]

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI[2]	Total
1989	223.3	58.4	281.7	80.6	362.3	299.4	30.9	330.2	100.1	430.3
1990	255.1	71.6	326.7	86.7	413.4	329.8	33.7	363.5	117.0	480.4

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$3.2	$2.1	−$1.1	$1.1	(3)	$24.6	$7.7	$32.2	$14.5	$46.7	27	37	28	55	33
1981	−0.7	−4.3	−5.0	3.6	−1.4	23.8	3.4	27.2	18.1	45.3	20	44	23	50	28
1982	−11.2	3.3	−7.9	3.2	−4.7	12.7	6.7	19.3	21.3	40.6	17	19	17	53	24
1983	−8.3	−.1	−8.4	−3.7	−12.1	4.4	6.5	10.9	17.6	28.5	8	35	11	54	19
1984	−30.8	7.8	−23.0	.7	−22.3	−26.4	14.3	−12.1	18.3	6.3	3	33	6	39	12
1985	−35.3	13.1	−22.2	−.2	−22.5	−61.7	27.4	−34.3	18.1	−16.2	−14	66	−6	35	2
1986	−42.5	17.2	−25.3	(2)	−25.3	−104.2	44.5	−59.6	18.1	−41.5	−28	115	−14	30	−5
1987	−53.7	20.2	−33.5	−4.2	−37.7	−157.9	64.8	−93.2	13.9	−79.2	−43	172	−22	25	−12
1988	−63.8	23.9	−39.9	−10.6	−50.5	−221.8	88.7	−133.1	3.4	−129.7	−58	229	−31	16	−21

1989	−76.1	27.6	−48.5	−19.5	−68.0	−297.9	116.3	−181.6	−16.1	197.7	−74	287	−40	3	−30
1990	−74.7	37.9	−36.8	−30.3	−67.1	−372.5	154.1	−218.4	−46.4	−264.8	−90	345	−50	−14	−41

[1] Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] Does not reflect the effects of the delay in periodic interim payments provided under Public Law 97-248. See covering memorandum for a more complete explanation.

[3] Less than $0.1 billion.

1. The income figures for 1983, and the end-of-year asset figures for 1983 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. Under this set of assumptions, a total of $12.4 billion would be transferred to OASI in 1983 in 1983, $6.1 billion from DI and $6.3 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since, following the expiration of the present law interfund borrowing authority, the OASI Trust Fund would become depleted in July 1983 when assets would become insufficient to pay benefits when due. Similarly, the HI Trust Fund operations in 1989 and later are theoretical, since the fund would be depleted in 1989 under this set of assumptions.

VI. Additional Data Dealing With Long Range Projections

The following tables provide detailed projections of income and outgo to the social security programs over the longer-run future—75 years for the cash benefit programs and 25 years for HI.

TABLE 28.—HI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULED TAX RATE [1] (INTERMEDIATE II–B ASSUMPTIONS, 1982–2006)

[Percent of taxable payroll]

Calendar year	HI outgo	Tax rate	Difference	Reserve ratio [2 3] (percent)
1981	2.39	[3] 2.6	+.21	45
1982	2.97	2.6	−.37	53
1983	2.58	2.6	+.02	39
1984	2.67	2.6	−.07	41
1985	2.74	2.7	−.04	41
1986	2.86	2.9	+.04	40
1987	3.01	2.9	−.11	42
1988	3.17	2.9	−.27	39
1989	3.34	2.9	−.44	32
1990	3.51	2.9	−.61	21
1991	3.69	2.9	−.79	7
1992	3.87	2.9	−.97	([4])
1993	4.09	2.9	−1.19	.....
1994	4.27	2.9	−1.37	.....
1995	4.47	2.9	−1.57	.....
1996	4.66	2.9	−1.76	.....
1997	4.85	2.9	−1.95	.....
1998	5.05	2.9	−2.15	.....
1999	5.21	2.9	−2.31	.....
2000	5.38	2.9	−2.48	.....
2001	5.55	2.9	−2.65	.....
2002	5.72	2.9	−2.82	.....
2003	5.90	2.9	−3.00	.....
2004	6.09	2.9	−3.19	.....
2005	6.29	2.9	−3.39	.....
Average:				
1982–2006	4.34	2.86	−1.48	.....

[1] Based on 1982 trustees report, alternative II–B assumptions, including effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] Reflects estimated cost of interfund loan from HI to OASI of $5.5 billion in calendar year 1982.

[3] Trust fund beginning of year as a percent of outgo during year.

[4] Trust fund is depleted in 1991.

TABLE 29.—OASDI OUTGO AS A PERCENT OF GNP,[1] 1982–2060

Year	Intermediate II–B assumptions [1]	Pessimistic assumptions [2]
1982	5.15	5.18
1983	5.05	5.25
1984	5.02	5.26
1985	5.03	5.26
1986	5.03	5.30
1987	5.02	5.33
1988	4.99	5.35
1989	4.96	5.37
1990	4.93	5.37
1991	4.90	5.37
1992	4.87	5.34
1993	4.84	5.33
1994	4.79	5.31
1995	4.75	5.32
1996	4.69	5.30
1997	4.64	5.26
1998	4.58	5.21
1999	4.53	5.17
2000	4.48	5.14
2001	4.44	5.12
2002	4.40	5.09
2003	4.37	5.07
2004	4.36	5.06
2005	4.36	5.08
2010	4.51	5.33
2015	4.92	5.89
2020	5.44	6.63
2025	5.90	7.37
2030	6.09	7.87
2035	6.05	8.13
2040	5.86	8.22
2045	5.70	8.35
2050	5.61	8.52
2055	5.54	8.61
2060	5.43	8.59
75-year average:		
1982–2056	5.27	6.69

[1] Based on 1982 trustees' report, alternative II–B assumptions. Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982.

[2] Based on 1982 trustees' report, alternative III assumptions. Includes effects of the Tax Equity and Fiscal Responsibility Act of 1982.

TABLE 30.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, FOR RETIRED WORKERS ONLY AT AGE 62 [1]

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amount (1982 constant dollars)			Replacement rates (in percent)		
	Lower earner	Average earner	Maximum earner	Lower earner	Average earner	Maximum earner	Lower earner	Average earner	Maximum earner	Lower earner	Average earner	Maximum earner
1965	2,600	4,576	4,800	802	1,120	1,233	2,574	3,599	3,957	30.8	24.5	25.7
1970	3,328	5,894	7,800	1,096	1,563	1,761	2,857	4,077	4,597	33.0	26.5	22.6
1975	3,883	8,031	13,200	1,847	2,720	3,178	3,321	4,890	5,718	47.6	33.8	24.1
1980	6,032	11,479	22,900	2,758	4,112	5,236	3,126	4,663	5,940	45.8	35.8	22.9
1981	6,448	12,513	25,900	2,956	4,394	5,523	3,090	4,598	5,775	45.8	35.1	21.4
1982	6,968	13,594	29,700	3,218	4,684	5,941	3,218	4,684	5,941	46.2	34.5	20.0
1983	6,968	14,496	32,400	3,452	5,157	6,591	3,200	4,776	6,102	49.5	35.6	20.3
1984	7,530	15,664	35,100	3,714	5,506	7,080	3,192	4,740	6,099	49.4	35.2	20.2
1985	8,136	16,926	37,500	3,982	5,923	7,670	3,230	4,804	6,222	49.0	35.0	20.5
1986	8,700	18,099	40,500	4,235	6,372	8,306	3,264	4,907	6,400	48.6	34.2	20.5
1987	9,292	19,329	43,800	4,504	6,794	8,910	3,294	4,972	6,528	48.5	35.1	20.3
1988	9,907	20,610	46,800	4,792	7,246	9,555	3,338	5,046	6,651	48.4	35.1	20.4
1989	10,560	21,968	50,100	5,090	7,712	10,223	3,386	5,129	6,798	48.2	35.1	20.4
1990	11,231	23,364	53,400	5,410	8,206	10,928	3,452	5,233	6,968	48.2	35.1	20.5
2000	19,320	40,191	93,300	9,183	14,168	20,331	3,966	6,119	8,786	47.5	35.3	21.8
2010	33,001	68,652	159,300	15,294	24,203	37,009	4,466	7,068	10,802	46.3	35.3	23.2
2020	56,370	117,268	271,800	25,890	41,357	64,670	5,103	8,159	12,757	45.9	35.3	23.8
2030	96,289	200,311	465,000	44,116	70,641	110,683	5,877	9,411	14,751	45.8	35.3	23.8
2040	164,475	342,160	795,400	75,361	120,672	189,102	6,782	10,863	17,021	45.8	35.3	23.8
2050	280,947	584,459	1,357,200	128,733	206,126	323,114	7,826	12,534	19,649	45.8	35.3	23.8

[1] Based on 1982 trustees' intermediate II-B assumptions and retirement at age 62. All benefits take into account the early retirement deductions.

TABLE 31.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, FOR RETIRED WORKERS AT AGE 62 WITH DEPENDENT SPOUSES [1]

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amount (1982 constant dollars)			Replacement rates (in percent)		
	Lower earner	Average earner	Maximum earner	Lower earner	Average earner	Maximum earner	Lower earner	Average earner	Maximum earner	Lower earner	Average earner	Maximum earner
1965	2,600	4,576	4,800	1,177	1,645	1,811	3,781	5,286	5,812	45.2	35.9	37.7
1970	3,328	5,894	7,800	1,610	2,296	2,586	4,196	5,988	6,752	48.4	39.0	33.2
1975	3,883	8,031	13,200	2,713	3,995	4,668	4,877	7,182	8,398	69.9	49.7	35.4
1980	6,032	11,479	22,900	4,051	6,040	7,690	4,592	6,849	8,724	67.2	52.6	33.6
1981	6,448	12,513	25,900	4,342	6,454	8,112	4,538	6,753	8,482	67.3	51.6	31.3
1982	6,968	13,594	29,700	4,726	6,880	8,726	4,726	6,880	8,726	67.8	50.6	29.4
1983	6,968	14,496	32,400	5,070	7,574	9,681	4,700	7,015	8,962	72.8	52.2	29.9
1984	7,530	15,664	35,100	5,456	8,086	10,399	4,688	6,962	8,958	72.5	51.6	29.6
1985	8,136	16,926	37,500	5,848	8,699	11,265	4,743	7,056	9,138	71.9	51.4	30.0
1986	8,700	18,099	40,500	6,220	9,359	12,199	4,794	7,207	9,400	71.5	51.7	30.1
1987	9,292	19,329	43,800	6,615	9,979	13,087	4,837	7,303	9,588	71.2	51.6	29.9
1988	9,907	20,610	46,800	7,038	10,642	14,034	4,903	7,412	9,769	71.0	51.6	30.0
1989	10,566	21,968	50,100	7,475	11,327	15,015	4,973	7,533	9,984	70.8	51.6	30.0
1990	11,231	23,364	53,400	7,947	12,052	16,051	5,070	7,686	10,234	70.8	51.6	30.1
2000	19,320	40,191	93,300	13,488	20,809	29,861	5,824	8,988	12,905	69.8	51.8	32.0
2010	33,001	68,652	159,300	22,464	35,548	54,357	6,560	10,381	15,865	68.1	51.8	34.1
2020	56,370	117,268	271,800	38,025	60,743	94,983	7,495	11,984	18,737	67.5	51.8	34.9
2030	96,289	200,311	465,000	64,795	103,754	162,566	8,632	13,823	21,666	67.3	51.8	35.0
2040	164,475	342,160	794,400	110,686	177,237	277,744	9,960	15,955	24,999	67.3	51.8	35.0
2050	280,947	584,459	1,357,200	189,076	302,747	474,573	11,494	18,410	28,859	67.3	51.8	35.0

[1] Based on 1982 trustees' intermediate II–B assumptions and retirement at age 62. All benefits take into account the early retirement reductions.

TABLE 32.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, FOR RETIRED WORKERS ONLY AT AGE 65

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amount (1982 constant dollars)			Replacement rates (in percent)		
	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner
1940	$537	$1,142	$3,000	$213	$294	$494	$1,531	$2,123	$3,570	39.6	25.8	16.5
1945	624	1,936	3,000	249	340	518	1,400	1,912	2,917	39.9	17.5	17.3
1950	832	2,483	3,000	356	489	636	1,168	1,646	2,277	42.8	19.7	21.2
1955	1,560	3,156	3,600	774	1,091	1,182	2,926	4,119	4,466	49.6	34.6	32.8
1960	2,080	3,856	4,800	936	1,284	1,428	3,198	4,395	4,886	45.0	33.3	29.7
1965	2,600	4,576	4,800	1,040	1,439	1,580	3,337	4,619	5,073	40.0	31.4	32.9
1970	3,328	5,894	7,800	1,421	2,021	2,278	3,708	5,271	5,945	42.7	34.3	29.2
1975	3,883	8,031	13,200	2,309	3,400	3,973	4,151	6,112	7,147	59.5	42.3	30.1
1980	6,032	11,479	22,900	3,859	5,862	7,437	4,374	6,647	8,432	64.0	51.1	32.5
1981	6,448	12,513	25,900	4,420	6,812	8,655	4,620	7,125	9,058	68.5	54.4	33.4
1982	6,968	13,594	29,700	4,444	6,702	8,500	4,444	6,702	8,500	63.8	49.3	28.6
1983	6,968	14,496	32,400	4,612	6,911	8,879	4,267	6,401	8,220	66.2	47.7	27.4
1984	7,530	15,664	35,100	4,703	7,069	9,152	4,047	6,087	7,882	62.5	45.1	26.1
1985	8,136	16,926	37,500	4,977	7,403	9,666	4,037	6,005	7,837	61.2	43.7	25.8
1986	8,700	18,099	40,500	5,294	7,965	10,449	4,080	6,134	8,054	60.8	44.0	25.8
1987	9,292	19,329	43,800	5,606	8,354	11,042	4,103	6,112	8,089	60.3	43.2	25.2
1988	9,907	20,610	46,800	5,918	8,829	11,733	4,117	6,144	8,172	59.7	42.8	25.1
1989	10,560	21,968	50,100	6,223	9,381	12,537	4,140	6,237	8,337	58.9	42.7	25.0
1990	11,231	23,364	53,400	6,535	9,890	13,305	4,164	6,306	8,486	58.2	42.3	24.9
2000	19,320	40,191	93,300	11,052	16,921	24,241	4,771	7,311	10,471	57.2	42.1	26.0
2010	33,001	68,652	159,300	18,480	28,906	44,112	5,397	8,440	12,880	56.0	42.1	27.7
2020	56,370	117,268	271,800	31,146	49,391	77,033	6,143	9,737	15,191	55.3	42.1	28.3
2030	96,289	200,311	465,000	52,936	84,382	131,830	7,053	11,240	17,566	55.0	42.1	28.4

TABLE 32.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, FOR RETIRED WORKERS ONLY AT AGE 65—Continued

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amount (1982 constant dollars)			Replacement rates (in percent)		
	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner
2040	164,475	342,160	795,400	90,438	144,146	225,199	8,139	12,975	20,272	55.0	42.1	28.3
2050	280,947	584,459	1,357,200	154,488	246,238	384,702	9,395	14,977	23,395	55.0	42.1	28.3

Based on 1982 trustees' intermediate II-B assumptions and retirement at age 65.

TABLE 33.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, FOR RETIRED WORKERS AT AGE 65 WITH DEPENDENT SPOUSES

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amount (1982 constant dollars)			Replacement rates (in percent)		
	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner	Low earner	Average earner	Maximum earner
1940	$537	$1,142	$3,000	$320	$441	$741	$2,297	$3,185	$5,355	59.6	38.6	24.7
1945	624	1,936	3,000	374	510	777	2,100	2,868	4,376	59.9	26.3	25.9
1950	832	2,483	3,000	534	734	954	1,752	2,469	3,416	64.2	29.6	31.8
1955	1,560	3,156	3,600	1,161	1,637	1,773	4,389	6,179	6,699	74.4	51.9	49.3
1960	2,080	3,856	4,800	1,404	1,926	2,142	4,797	6,593	7,329	67.5	49.9	44.6
1965	2,600	4,576	4,800	1,560	2,159	2,370	5,006	6,929	7,610	60.0	47.2	49.4
1970	3,328	5,894	7,800	2,132	3,032	3,417	5,562	7,907	8,918	64.1	51.4	43.8
1975	3,883	8,031	13,200	3,464	5,100	5,960	6,227	9,168	10,721	89.2	63.5	45.2
1980	6,032	11,479	22,900	5,789	8,793	11,156	6,561	9,971	12,648	96.0	76.6	48.7

1981	6,448	12,513	25,900	6,630	10,218	12,983	6,930	10,688	13,587	102.8	81.7	50.1
1982	6,968	13,594	29,700	6,666	10,053	12,750	6,666	10,053	12,750	95.7	74.0	42.9
1983	6,968	14,496	32,400	6,918	10,367	13,319	6,401	9,602	12,330	99.3	71.5	41.1
1984	7,530	15,664	35,100	7,055	10,604	13,728	6,071	9,131	11,823	93.7	67.7	39.1
1985	8,136	16,926	37,500	7,466	11,105	14,499	6,056	9,008	11,756	91.8	65.6	38.7
1986	8,700	18,099	40,500	7,941	11,948	15,674	6,120	9,201	12,081	91.3	66.0	38.7
1987	9,292	19,329	43,800	8,409	12,531	16,563	6,155	9,168	12,134	90.5	64.8	37.8
1988	9,907	20,610	46,800	8,877	13,244	17,600	6,176	9,216	12,258	89.6	64.3	37.6
1989	10,560	21,968	50,100	9,335	14,072	18,806	6,210	9,356	12,506	88.4	64.1	37.5
1990	11,231	23,364	53,400	9,803	14,835	19,958	6,246	9,459	12,729	87.3	63.5	37.4
2000	19,320	40,191	93,300	16,578	25,382	36,362	7,157	10,967	15,707	85.8	63.2	39.0
2010	33,001	68,652	159,300	27,720	43,359	66,168	8,096	12,660	19,320	84.0	63.2	41.5
2020	56,370	117,268	271,800	46,719	74,087	115,550	9,215	14,606	22,787	82.9	63.2	42.5
2030	96,289	200,311	465,000	79,404	126,573	197,745	10,580	16,860	26,349	82.5	63.2	42.5
2040	164,475	342,160	794,400	135,657	216,219	337,799	12,209	19,463	30,408	82.5	63.2	42.5
2050	280,947	584,459	1,357,200	231,732	369,357	577,053	14,093	22,466	35,093	82.5	63.2	42.5

Based on 1982 trustees' intermediate II-B assumptions and retirement at age 65.

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VII. Economic and Demographic Assumptions

The following tables provide specific information concerning the economic and demographic assumptions which underlie the short and long-run financial projections. It must be emphasized that these assumptions were developed in the spring of 1982, and that the short-range assumptions are likely to be revised substantially in the coming weeks.

TABLE 34.—ECONOMIC ASSUMPTIONS, 1960–2055

Calendar years	Average annual percentage increase in—		Consumer Price Index	Real wage differential (percent)	Average annual interest rate (percent)	Average annual unemployment rate
	Real GNP	Average wages in covered employment				
Past experience:						
1960–64	4.0	3.4	1.3	2.1	3.7	5.7
1965–69	4.4	5.4	3.4	2.0	5.2	3.8
1970–74	2.8	6.3	6.1	0.2	6.7	5.4
1975–79	3.5	8.0	8.1	−.1	7.8	7.0
1980	−0.2	8.6	13.5	−4.9	11.0	7.1
1981	2.0	8.7	10.3	−1.6	13.3	7.6
Intermediate II–B:						
1982	−.8	6.6	6.9	−.3	13.0	9.1
1983	4.2	8.1	7.9	.2	11.4	8.5
1984	3.3	8.1	7.4	.7	9.3	8.0
1985	3.0	6.9	6.6	.3	8.0	7.7
1990	3.0	6.0	4.5	1.5	6.4	6.1
1995	2.5	5.5	4.0	1.5	6.1	5.0
2000 and later	[1] 2.6	5.5	4.0	1.5	6.1	5.0
Pessimistic:						
1982	−1.5	6.3	7.2	−.9	13.1	9.3
1983	.6	7.3	9.6	−2.3	12.3	9.8
1984	2.5	7.8	9.6	−1.8	10.5	9.6
1985	3.8	9.2	9.2	.0	9.4	8.8
1990	2.7	9.0	7.2	.8	7.6	6.9
1995	1.8	6.2	5.2	1.0	6.7	6.0
2000 and later	[1] 2.1	6.0	5.0	1.0	6.6	6.0
CBO:						
1982	−1.3	6.5	6.1	.4	11.3	9.3
1983	3.6	5.5	4.9	.7	11.0	8.8
1984	3.7	7.4	5.3	1.4	10.0	8.2
1985	3.7	6.9	5.8	1.2	8.9	7.8

TABLE 34.—ECONOMIC ASSUMPTIONS, 1960–2055—Continued

Calendar years	Average annual percentage increase in—		Consumer Price Index	Real wage differential (percent)	Average annual interest rate (percent)	Average annual unemployment rate
	Real GNP	Average wages in covered employment				
1990	3.1	6.5	5.2	1.3	7.4	6.5

[1] This value is for the year 2000. The annual increase in real GNP is assumed to continue to change after 2000 under each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2060 are 2.1 and 1.0 for Alternatives II–B and III, respectively.

TABLE 35.—HISTORICAL AND PROJECTED FUTURE CHANGES IN LIFE EXPECTANCY AT BIRTH, 1940 TO 2040

Year	Male (years)	Female (years)
Life expectancy of person born in:		
1940	61.1	65.6
1950	65.3	70.9
1960	66.7	73.4
1980	69.8	77.7
1982	70.4	78.3
2000	72.9	81.1
2020	73.8	82.1
2040	74.6	83.1

Based on Intermediate II–B assumptions contained in the 1982 Trustees Report.

TABLE 36.—HISTORICAL AND PROJECTED FUTURE CHANGES IN LIFE EXPECTANCY OF AN AGE 65 RETIREE, 1940 TO 2040

Year	Male (years)	Female (years)
Life expectancy of worker retiring at 65 in:		
1940	12.0	13.7
1950	12.7	15.0
1960	13.0	16.1
1980	14.3	18.7
1982	14.5	19.1
2000	15.8	21.1
2020	16.4	22.0
2040	17.0	22.8

Based on Intermediate II–B assumptions contained in the 1982 Trustees Report.

TABLE 37.—HISTORICAL AND PROJECTED FERTILITY AND MORTALITY ASSUMPTIONS, 1960–2055

Calendar year	Total fertility rate	Age-adjusted mortality rate	
		Male	Female
Past experience:			
1960	3.61	12.56	8.17
1965	2.88	12.49	7.73
1970	2.43	12.18	7.22
1975	1.77	11.09	6.38
1976	1.74	10.94	6.32
1977	1.79	10.69	6.13
1978	1.76	10.61	6.10
1979	1.81	10.27	5.88
1980	1.84	10.27	5.88
1981	1.86	10.12	5.77
Optimistic:			
1982	1.89	10.12	5.76
1983	1.91	10.04	5.71
1984	1.93	9.97	5.65
1985	1.96	9.89	5.59
1990	2.07	9.57	5.36
1995	2.18	9.35	5.21
2000	2.29	9.24	5.14
2005 and later	2.40	9.15	5.09
Intermediate II–B:			
1982	1.87	9.97	5.66
1983	1.88	9.82	5.54
1984	1.89	9.67	5.43
1985	1.90	9.52	5.32
1990	1.95	8.91	4.89
1995	2.00	8.51	4.63
2000	2.05	8.31	4.50
2005 and later	2.10	8.16	4.41
Pessimistic:			
1982	1.83	9.69	5.46
1983	1.83	9.39	5.24
1984	1.82	9.10	5.03
1985	1.82	8.81	4.82
1990	1.79	7.73	4.07
1995	1.76	7.06	3.64
2000	1.73	6.72	3.45
2005 and later	1.70	6.49	3.31

TABLE 38.—AGE-ADJUSTED GROSS DISABILITY INCIDENCE RATE,[1] 1970–90

Calendar year	1982 trustees report "II–B" assumptions		1982 trustees report pessimistic assumptions	
	Male	Female	Male	Female
1970	4.92	3.50	4.92	3.50
1971	5.72	4.04	5.72	4.04
1972	6.11	4.41	6.11	4.41
1973	6.41	4.81	6.41	4.81
1974	6.70	5.50	6.70	5.50
1975	7.32	5.89	7.32	5.89
1976	6.77	5.29	6.77	5.29
1977	6.93	5.28	6.93	5.28
1978	5.62	4.14	5.62	4.14
1979	4.94	3.64	4.94	3.64
1980	4.55	3.35	4.55	3.35
1981	3.99	2.94	3.99	2.94
1982	3.52	2.59	3.52	2.59
1983	3.76	2.77	3.80	2.79
1984	4.00	2.95	4.07	3.00
1985	4.09	3.01	4.20	3.09
1986	4.17	3.07	4.32	3.18
1987	4.25	3.13	4.45	3.27
1988	4.34	3.19	4.58	3.37
1989	4.43	3.26	4.72	3.47
1990	4.44	3.32	4.84	3.56

[1] The age-adjusted gross disability incidence rate for any year is the annual number of awards per 1,000 persons that would have occurred in the total population exposed to disability during 1979, if that population had experienced the disability incidence rates by age assumed for the selected year.

VIII. Financial Effects of Legislation of Recent Years

The tables which follow show the effects of legislation from 1977 to date on the financial status of the social security programs.

TABLE 39.—ORIGINAL SHORT-RANGE ESTIMATES OF REDUCTION IN OASDI AND HI BENEFIT PAYMENTS DUE TO AMENDMENTS OF 1977 AND 1980, THE OMNIBUS RECONCILIATION ACT OF 1981, AND THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

[In billions]

Calendar years	Estimates of net reduction in benefit payments, made at time of enactment, resulting from each set of amendments [1]				
	1977 amendments	1980 amendments [2]	1981 reconciliation	1981 minimum benefit restoration bill	1982 Tax Act
1978	$0.4				
1979	.5				
1980	.8	([3])			
1981	1.4	$0.2	$0.1		
1982	1.7	.7	3.5	−$0.9	
1983	2.6	1.1	4.7	−1.3	$0.8
1984	3.7	1.4	5.8	−1.3	1.9
1985	4.9	1.8	6.4	−1.3	3.7
1986	6.4	2.2	6.9	−1.3	4.7

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

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

[3] Less than $50 million.

TABLE 40.—ADDITIONAL TAX INCOME IN 1979 TO 1990 TO THE OASDHI PROGRAMS DUE TO THE 1977 AMENDMENTS, PUBLIC LAW 97-123, AND THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

[In billions]

Calendar year	Additional tax income		
	1977 amendments	Public Law 97-123	Tax Act of 1982
1979	$6.6		
1980	10.0		
1981	19.3		
1982	23.1	$0.6	
1983	25.0	.7	$1.6
1984	27.8	.7	1.9
1985	42.4	.8	2.2
1986	45.1	.9	2.6
1987	48.9	1.0	2.8
1988	52.9	1.0	3.0
1989	57.0	1.1	3.3
1990	86.2	1.3	3.7
1980-1990	437.7	8.1	21.2

Note: Based on the 1982 Trustees' Report Intermediate (II-B) economic assumptions.

TABLE 41.—ESTIMATED FINANCIAL EFFECTS ON THE OASDHI PROGRAMS RESULTING FROM PUBLIC LAW 97–123 ON THE BASIS OF THE 1982 TRUSTEES REPORT INTERMEDIATE II–B ASSUMPTIONS, 1983–87

[In billions]

Provision	Effective date	Calendar year—					
		1982	1983	1984	1985	1986	1987
Additional OASDI benefit payments resulting from restoration of minimum benefits for persons eligible for benefits prior to 1982.	November 1981	$0.9	$1.3	$1.3	$1.3	$1.3	$1.2
Additional OASDI and HI tax income resulting from coverage of first 6 months of sick leave, self-insurance, private insurance, and mandated public insurance benefits not attributable to employee contributions.	January 1982	.6	.7	.7	.8	.9	1.0

TABLE 42.—ESTIMATED FINANCIAL EFFECTS ON THE OASDHI PROGRAMS RESULTING FROM THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 ON THE BASIS OF THE 1982 TRUSTEES REPORT INTERMEDIATE II–B ASSUMPTIONS, 1983–87

[In billions]

Provision	Effective date	Calendar year—				
		1983	1984	1985	1986	1987
Net additional OASDI tax income	April 1983	([1])	$0.2	$0.2	$0.3	$0.3
Net additional HI tax income	January 1983	1.6	1.8	2.0	2.3	2.5
Net reduction in HI outgo		.8	1.9	3.7	4.7	5.2

[1] Less than $50 million.

IX. Historical Program Data

The following tables provide various historical data concerning income, outgo, assets, and other aspects of the programs' financial condition.

TABLE 43.—HISTORICAL LEVELS OF OASDHI TRUST FUND ASSETS, ACTUAL AMOUNTS, 1950–81

[In billions of dollars]

Calendar year	Assets in the trust funds, end of year		
	OASDI	HI	OASDHI combined
1950	13.7	(1)	13.7
1960	22.6	(1)	22.6
1970	38.1	3.2	41.3
1971	40.4	3.0	43.4
1972	42.8	2.9	45.7
1973	44.4	6.5	50.9
1974	45.9	9.1	2 55.0
1975	44.3	10.5	54.8
1976	41.1	10.6	51.7
1977	35.9	10.4	46.3
1978	31.7	11.5	43.2
1979	30.3	13.2	43.5
1980	26.5	13.7	40.2
1981	24.5	18.7	43.2

1 HI (Part A of medicare) enacted in 1965.
2 The highest combined level of reserves (OASDHI) was reached in 1974.

Source: Various Trustees' Reports since 1950.

TABLE 44.—HISTORICAL LEVELS OF OASDHI TRUST FUND ASSETS, NUMBER OF MONTHS' WORTH ON HAND (1950 TO 1982)

Calendar year	Number of months' worth of expenditures on hand at beginning of year		
	OASDI	HI	OASDHI
1950	138.7	(1)	138.7
1960	22.3	(1)	22.3
1965	13.2	(1)	13.2
1970	12.4	5.6	11.5
1975	8.0	9.4	8.3
1980	2.9	6.2	3.5
1982	1.8	6.3	2.6

[1] Hospital insurance (part A of medicare) not enacted until 1965.

TABLE 45.—HISTORICAL OASDHI RESERVE PERCENTAGES, 1950–81

Calendar year	Trust fund assets at the beginning of each year as a percent of outgo during the year				
	OASI and DI combined	OASI	DI	HI [1]	OASDHI
1950	1,156	1,156	.....	.....	1,156
1955	405	405	.....	.....	405
1960	186	180	304	.....	186
1965	110	109	121	.....	110
1970	103	101	126	47	96
1971	99	94	140	54	93
1972	93	88	140	47	87
1973	80	75	125	40	76
1974	73	68	110	69	73
1975	66	63	92	79	68
1976	57	54	71	77	60
1977	47	47	48	66	50
1978	37	39	26	57	41
1979	30	30	30	54	34
1980	25	23	35	52	29
1981	18	18	21	45	23

[1] HI (part A of medicare) enacted in 1965.

Source: 1982 OASDI and HI Trustees' Reports.

TABLE 46.—LONG RANGE OASDHI FINANCIAL FORECASTS IN PREVIOUS TRUSTEES' REPORTS, 1977 TO 1982

[In percent of taxable payroll]

	Average scheduled tax rate	Average expenditures	Difference (actuarial imbalance)
(OASDI program—75-year forecast)			
Prior to 1977 Amendments (1977 Trustees' Report)	10.99	19.19	−8.20
Just after enactment of 1977 Amendments	12.12	13.58	−1.46
1978 Trustees' Report	12.16	13.55	−1.40
1979 Trustees' Report	12.19	13.38	−1.20
1980 Trustees' Report	12.22	13.74	−1.52
1981 Trustees' Report:			
Intermediate A	12.25	13.17	−.93
Intermediate B	12.25	14.07	−1.82
1982 Trustees' Report:			
Intermediate A	12.27	13.09	−.82
Intermediate B	12.27	14.09	−1.82
(HI program—25-year forecast)			
Prior to 1977 Amendments	2.80	3.96	−1.16
Just after enactment of 1977 Amendments	(1)	(1)	(1)
1978 Trustees' Report	2.74	3.86	−1.12
1979 Trustees' Report	2.78	3.82	−1.04
1980 Trustees' Report	2.81	3.80	−.99
1981 Trustees' Report:			
Intermediate A	2.84	4.02	−1.18
Intermediate B	2.84	4.28	−1.44
1982 Trustees' Report:			
Intermediate A	2.86	4.40	−1.63
Intermediate B	2.86	4.83	−2.07

[1] Long range projections not made at that time.

TABLE 47.—SOCIAL SECURITY EXPENDITURES IN ACTUAL AND CONSTANT DOLLARS, CALENDAR YEARS 1960–81

[In millions of dollars]

	Cash benefits		Total OASDI	1981 dollars [1]	Medicare		Total (OASI, DI, HI, SMI)	1981 dollars [1]
	OASI	DI			HI	SMI		
1960	11,198	600	11,798	36,235			11,798	36,235
1961	12,432	956	13,388	40,705			13,388	40,705
1962	13,973	1,183	15,156	45,568			15,156	45,568
1963	14,920	1,297	16,217	48,179			16,217	48,179
1964	15,613	1,407	17,020	49,912			17,020	49,912
1965	17,501	1,687	19,188	55,313			19,188	55,313
1966	18,967	1,947	20,914	58,615	999	203	22,116	61,984

TABLE 47.—SOCIAL SECURITY EXPENDITURES IN ACTUAL AND CONSTANT DOLLARS, CALENDAR YEARS 1960–81—Continued

[In millions of dollars]

	Cash benefits		Total OASDI	1981 dollars [1]	Medicare		Total (OASI, DI, HI, SMI)	1981 dollars [1]
	OASI	DI			HI	SMI		
1967	20,382	2,089	22,471	61,212	3,430	1,307	27,208	74,116
1968	23,557	2,458	26,015	68,013	4,277	1,702	31,994	83,664
1969	25,176	2,716	27,892	69,194	4,857	2,061	34,810	86,356
1970	29,848	3,259	33,107	77,552	5,281	2,212	40,600	95,104
1971	34,542	4,000	38,542	86,553	5,900	2,377	46,819	105,140
1972	38,522	4,759	43,281	94,089	6,503	2,614	52,398	113,909
1973	47,175	5,973	53,148	108,776	7,289	2,844	63,281	129,515
1974	53,397	7,196	60,593	111,354	9,372	3,728	73,693	135,915
1975	60,395	8,790	69,185	116,906	11,581	4,735	85,501	144,476
1976	67,876	10,366	78,242	125,007	13,679	5,622	97,543	155,844
1977	75,309	11,946	87,255	130,955	16,019	6,505	109,779	164,759
1978	83,064	12,954	96,018	133,860	18,178	7,755	121,951	170,014
1979	93,133	14,186	107,319	134,468	21,078	9,265	137,657	172,481
1980	107,678	15,872	123,550	139,369	25,577	11,245	160,372	177,011
1981	126,695	17,658	144,352	144,352	30,726	14,028	189,106	189,106

[1] Based on CPI, all items.

TABLE 48.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI

[In percent]

	Increase in wages [1]		Increase in CPI		Benefit increases	
	Year to year	Cumulative since year of each benefit increase to 1982	Year to year	Cumulative since year of each benefit increase to 1982	Increase during year	Cumulative since year of each benefit increase to 1982
1940		1,111.1		593.7		853.7
1950	112.9	468.9	71.7	304.0	77.0	438.8
1952	16.9	386.6	10.5	265.6	12.5	378.9
1954	6.1	358.6	1.0	262.0	13.0	323.8
1959	22.2	275.3	8.4	233.9	7.0	269.1
1965	20.8	210.7	8.2	208.6	7.0	270.2
1968	19.6	159.8	10.3	179.8	13.0	227.6
1970	11.0	134.0	11.6	150.7	15.0	184.9
1971	5.0	122.9	4.3	140.4	10.0	159.0
1972	9.8	103.0	3.3	132.7	20.0	115.8
1974	12.6	80.3	17.9	97.4	11.0	94.4
1975 [2]	7.5	67.7	9.1	80.9	8.0	80.0
1976	6.9	56.9	5.8	71.0	6.4	69.2
1977	6.0	48.0	6.5	60.6	5.9	59.8
1978	7.9	37.2	7.6	49.2	6.5	50.0
1979	8.7	26.2	11.5	33.8	9.9	36.5
1980	9.0	[2] 15.8	13.5	17.9	14.3	19.4

TABLE 48.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI—Continued

[In percent]

	Increase in wages [1]		Increase in CPI		Benefit increases	
	Year to year	Cumulative since year of each benefit increase to 1982	Year to year	Cumulative since year of each benefit increase to 1982	Increase during year	Cumulative since year of each benefit increase to 1982
1981	[3] 8.6	6.6	10.3	[3] 6.9	11.2	7.4
1982	[3] 6.6	.....	[3] 6.9	.....	7.4	.....

[1] Based on average of total wages used for social security indexing series.
[2] Increases from 1975 on were tied to increases in the CPI.
[3] Estimates from 1982 Trustees' Report Intermediate II-B assumptions.

Source: Congressional Research Service.

TABLE 49.—AMOUNT OF NET ADMINISTRATIVE EXPENSES AND NET ADMINISTRATIVE EXPENSES EXPRESSED AS A PERCENTAGE OF BENEFIT PAYMENTS, SELECTED FISCAL YEARS 1950–82

Fiscal year	Net administrative expenses (in millions)				As a percentage of benefit payments			
	OASI	DI	HI	OASDHI	OASI	DI	HI	OASDHI
1950	$57	.....	.....	$57	8	.....	.....	8
1960	202	$32	.....	234	2	6	.....	2
1970	474	149	$149	772	2	5	3	2
1975	848	253	259	1,360	2	3	3	2
1980	1,160	334	497	1,991	1	2	2	1
1982 [1]	1,443	550	564	2,557	1	3	2	1

[1] Preliminary.

TABLE 50.—SOCIAL SECURITY TAXES PAID BY WORKERS AT VARIOUS EARNINGS LEVELS, 1960–87

	Amount of worker's social security tax liability in calendar years				
	1960	1970	1975	1982	1987 [1]
Wage or salaried worker with annual wages of:					
$5,000	$144.00	$240.00	$292.50	$335.00	$357.50
$10,000	144.00	374.40	585.00	670.00	715.00
$20,000	144.00	374.40	824.85	1,340.00	1,430.00
$30,000	144.00	374.40	824.85	2,010.00	2,145.00
$40,000	144.00	374.40	824.85	2,170.80	2,860.00
$50,000	144.00	374.40	824.85	2,170.80	3,346.20

TABLE 50.—SOCIAL SECURITY TAXES PAID BY WORKERS AT VARIOUS EARNINGS LEVELS, 1960–87—Continued

	Amount of worker's social security tax liability in calendar years				
	1960	1970	1975	1982	1987 [1]
Self-employed worker with annual earnings of:					
$5,000	216.00	345.00	395.00	467.50	500.00
$10,000	216.00	538.20	790.00	935.00	1,000.00
$20,000	216.00	538.20	1,113.90	1,870.00	2,000.00
$30,000	216.00	538.20	1,113.90	2,805.00	3,000.00
$40,000	216.00	538.20	1,113.90	3,029.40	4,000.00
$50,000	216.00	538.20	1,113.90	3,029.40	4,680.00

[1] Based on a taxable earnings base of $46,800 projected under the Intermediate II–B assumptions of the 1982 Trustees' Report and currently scheduled tax rates.

X. Sources of Income and Poverty Trends

The following tables profile the sources of income and poverty trends of individuals and families.

TABLE 51.—TRENDS IN PERCENT OF PERSONS POOR, BY AGE, 1959–79 [1]

Age and family status [2]	1959	1969	1970	1971	1972	1973	1974 [3]	1975	1976	1977	1978	1979 [3 4]
	Persons poor (in millions)											
All ages	39.5	24.3	25.3	25.6	24.5	23.0	23.6	25.9	25.0	24.7	24.5	25.3
Children under 18	17.2	9.8	10.5	10.3	10.1	9.5	10.0	10.9	10.1	10.0	9.7	9.7
In families with—												
Male head	13.1	5.4	5.7	5.5	5.0	4.3	4.6	5.3	4.5	4.4	4.0	4.2
Female head	4.1	4.4	4.8	4.8	5.1	5.2	5.4	5.6	5.6	5.6	5.7	5.5
18–54 [5]	13.4	7.7	8.2	8.8	8.5	8.3	8.7	9.7	9.7	9.6	9.7	10.0
55–64	3.3	2.0	2.1	2.2	2.0	1.8	1.8	2.0	1.9	1.9	1.9	2.0
65 or older	5.5	4.8	4.7	4.3	3.7	3.4	3.1	3.3	3.3	3.2	3.2	3.6
In familes	3.2	2.1	2.0	1.7	1.4	1.4	1.1	1.2	1.2	1.2	1.2	1.3
Unrelated individuals	2.3	2.7	2.7	2.6	2.3	2.0	2.0	2.1	2.1	2.0	2.1	2.2
Men	.7	.6	.5	.5	.4	.4	.4	.4	.4	.4	.4	.4
Women	1.6	2.1	2.2	2.1	1.9	1.6	1.6	1.7	1.7	1.6	1.7	1.8
	Percent poor											
All ages	22.4	12.2	12.6	12.5	11.9	11.1	11.2	12.3	11.8	11.6	11.4	11.6
Children under 18	26.9	14.1	15.0	15.1	14.9	14.2	15.1	16.8	15.8	16.0	15.7	16.0
In familes with—												
Male head	22.4	8.8	9.3	9.3	8.6	7.6	8.7	9.8	8.5	8.5	7.9	8.5
Female head	72.2	54.4	53.4	53.1	53.1	52.1	51.5	52.7	52.0	50.3	50.6	48.6
18–54 [5]	16.5	8.2	8.7	9.0	8.6	8.2	8.5	9.2	9.1	8.9	8.8	8.9
55–64	21.5	11.1	11.4	11.4	10.7	9.6	9.4	10.2	9.5	9.2	9.0	9.5
65 or older	35.2	25.3	24.5	21.6	18.6	16.3	14.6	15.3	15.0	14.1	13.9	15.1
In families	26.9	16.0	14.7	12.4	10.4	9.4	7.5	8.0	7.9	7.8	7.6	8.3
Unrelated individuals	61.9	47.3	47.1	42.3	37.1	31.9	30.3	31.0	30.3	27.3	27.0	29.3
Men	59.0	39.8	38.9	32.6	26.3	27.1	26.8	27.7	25.9	23.6	20.7	25.3

Women	63.3	49.9	49.7	45.1	40.4	33.4	31.7	31.9	31.5	28.4	28.8	30.4

[1] Data for 1970–79 based on 1970 Census of Population controls.
[2] Income and poverty status refer to calendar year as shown: family status as of March of succeeding year.
[3] Based on revised methodology.
[4] Data for 1979 based on 1970 Census of Population controls. Based on 1980 Census of Population controls, the number of persons poor would be 26.0 million and the percent poor would be 11.7.
[5] Includes persons under age 18 listed as unrelated individual, family head, or wife of head.

Source: Derived by the Social Security Administration from special tabulations of the Bureau of the Census from the Current Population Survey for March of pertinent years. Data for 1959 for persons aged 65 and over not available from March 1960 Current Population Survey; data estimated by Social Security Administration.

TABLE 52.—SHARES OF MONEY INCOME FROM EARNINGS AND OTHER SOURCES FOR AGED AND NONAGED HOUSEHOLDS, BY POVERTY STATUS, 1979

Type of money income received during year	Aged households						Nonaged households					
	Individuals living alone or with nonrelatives only			Families with head aged 65 or older			Individuals living alone or with nonrelatives only			Families with head aged 65 or older		
	Total	Nonpoor	Poor [1]	Total	Nonpoor	Poor [1]	Total	Nonpoor	Poor [1]	Total	Nonpoor	Poor [1]
Number of households (in millions)	7.7	5.4	2.2	8.8	8.0	0.8	17.9	14.6	3.4	49.6	45.1	4.5
	Percent receiving income from specified type [2]											
Earnings	15	19	6	45	48	21	86	94	54	95	98	65
Public program payments:												
Social Security [3]	91	93	86	93	93	84	7	5	15	11	10	14
Supplemental Security Income	12	6	26	8	5	32	3	1	9	2	1	6
Other public assistance	2	1	4	2	2	10	2	1	8	6	3	40
Other programs [4]	8	8	6	10	11	6	12	13	10	17	18	12
Other sources:												
Dividends, interest, rent	67	79	38	76	80	33	58	64	30	70	75	22

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TABLE 52.—SHARES OF MONEY INCOME FROM EARNINGS AND OTHER SOURCES FOR AGED AND NONAGED HOUSEHOLDS, BY POVERTY STATUS, 1979—Continued

Type of money income received during year	Aged households						Nonaged households					
	Individuals living alone or with nonrelatives only			Families with head aged 65 or older			Individuals living alone or with nonrelatives only			Families with head aged 65 or older		
	Total	Nonpoor	Poor [1]	Total	Nonpoor	Poor [1]	Total	Nonpoor	Poor [1]	Total	Nonpoor	Poor [1]
Private pension, annuities, other [5]	27	35	7	45	48	7	14	14	14	19	20	15
	Percentage distribution of income, by type											
Total percent	100	100	100	100	100	100	100	100	100	100	100	100
Earnings	11	13	1	33	34	4	88	89	49	90	90	50
Public program payments:												
Social Security [3]	45	41	78	33	32	71	2	1	18	2	2	9
Supplemental Security Income	2	1	11	1	1	13	1	(6)	9	(6)	(6)	3
Other public assistance	(6)	(6)	1	(6)	(6)	4	(6)	(6)	5	1	(6)	28
Other programs [4]	2	2	3	2	1	2	2	1	7	1	1	4
Other sources:												
Dividends, interest, rent	27	29	4	18	18	3	4	4	3	4	4	1
Private pension, annuities, other [5]	13	14	2	13	14	2	4	3	9	3	3	5
Mean income	$6,540	$8,210	$2,520	$14,730	$15,850	$3,420	$11,190	$13,343	$1,840	$23,730	$25,701	$4,080

[1] Poverty status based on money income of all family members after receipt of OASDI and any other cash transfer payment.
[2] Received by individual or any family member at any time during 1979. Most individuals of families received more than one type of income during year.
[3] Social Security may include any Railroad Retirement payments.
[4] Unemployment insurance, workers' compensation, or veterans payments.
[5] Private pensions, government employee pension, alimony, annuities, etc.
[6] Less than 0.05 percent.

Note.—Interpretation of year-to-year trends in types of income received by the poor and nonpoor should allow for the fact that substantial changes were introduced into the March 1980 Current Population Survey questions from which statistics on income shares and recipiency rates for each type of income are derived. These changes make it difficult to compare 1979 recipiency rates for several types of income to earlier years. For example, the large increase for 1979 over 1978 in the percentage of poor and nonpoor households with pensions other than Social Security or receiving income from interest, dividends, and rent represents in large part a statistical artifact attributable to modifications in the March 1980 CPS rather than changing, recipiency patterns.

Source: Derived by the Social Security Administration from special tabulations of the Bureau of the Census from the March 1979 Current Population Survey.

TABLE 53.—POVERTY STATUS OF AGED HOUSEHOLDS RECEIVING SOCIAL SECURITY BENEFITS, BY SHARE OF INCOME FROM BENEFITS AND RACE, 1979

OASDHI share of money income for year [1]	Individuals aged 65 or older living alone or with nonrelatives only				Families with head of household aged 65 or older			
	Total	Nonpoor	Poor	Percent poor	Total	Nonpoor	Poor	Percent poor
All races [2]								
Total number (in millions)	7.7	5.4	2.2	.....	8.8	8.0	0.8	.....
Total percent	100	100	100	29	100	100	100	9
No OASDHI cash benefits	9	7	14	45	7	7	16	19
Some OASDHI cash benefits	91	93	86	28	93	93	84	8
Less than one-fourth of income	8	11	(3)	1	20	22	2	1
One-fourth up to one-half of income	19	25	4	7	26	28	10	3
One-half up to three-fourths of income	24	26	18	22	24	25	17	7
Three-fourths or more of income	40	30	63	46	22	19	55	23
White								
Total number (in millions)	6.9	5.1	1.8	.....	7.9	7.3	0.6	.....
Total percent	100	100	100	27	100	100	100	7
No OASDHI cash benefits	8	7	11	38	7	6	16	17
Some OASDHI cash benefits	92	93	89	25	93	94	84	7
Less than one-fourth of income	9	12	(3)	1	21	22	1	(3)
One-fourth up to one-half of income	20	25	4	6	26	28	8	2
One-half up to three-fourths of income	24	26	17	19	24	25	17	5

TABLE 53.—POVERTY STATUS OF AGED HOUSEHOLDS RECEIVING SOCIAL SECURITY BENEFITS, BY SHARE OF INCOME FROM BENEFITS AND RACE, 1979—Continued

OASDHI share of money income for year [1]	Individuals aged 65 or older living alone or with nonrelatives only				Families with head of household aged 65 or older			
	Total	Nonpoor	Poor	Percent poor	Total	Nonpoor	Poor	Percent poor
Three-fourths or more of income	40	30	67	45	22	19	58	20
				Black				
Total number (in millions)	0.7	0.3	0.4	.....	0.8	0.6	0.2	.....
Total percent	100	100	100	58	100	100	100	26
No OASDHI cash benefits	19	12	23	73	11	9	16	37
Some OASDHI cash benefits	81	88	77	55	89	91	84	25
Less than one-fourth of income	3	8	0	([4])	20	25	4	5
One-fourth up to one-half of income	14	26	5	22	23	26	14	16
One-half up to three-fourths of income	22	21	23	61	22	23	18	22
Three-fourths or more of income	42	34	48	67	24	16	49	52

[1] Payments under Old-Age, Survivors, Disability, and Health Insurance program anytime in 1979 to any family member as reported in March 1980 Current Population Survey. For 1978, according to program records, receipt of Social Security benefits reported by survey respondents represented 90 percent of aggregate OASDHI payments.

[2] Includes races other than black or white not shown separately.

[3] Less than 0.05 percent.

[4] Base less than 50,000.

Note.—Poverty status based on money income after receipt of OASDHI and any other cash transfer payments. Many beneficiaries considered nonpoor after receipt of OASDHI would be poor if the benefits were not added to their other income sources.

Sources: Derived by the Social Security Administration from special Office of Economic Opportunity tabulations of the Bureau of Census from the March 1980 Current Population Survey.

TABLE 54.—MARITAL STATUS OF AGED INDIVIDUALS,[1] BY SEX AND AGE, 1968 AND 1978

	1968		1978	
	65 to 74 years	75 years and older	65 to 74 years	75 years and older
Men:				
Number (in thousands)	5,096	2,776	6,080	3,090
Percent	100.0	100.0	100.0	100.0
Married, wife present	79.4	59.7	78.1	68.2
Married, wife absent	2.0	2.3	3.0	2.1
Widowed	10.8	30.3	9.7	23.0
Divorced	2.6	1.9	3.5	1.8
Never married	5.3	5.8	5.7	4.8
Women:				
Number (in thousands)	6,395	3,978	8,189	5,109
Percent	100.0	100.0	100.0	100.0
Married, husband present	45.6	20.5	46.2	21.6
Married, husband absent	1.5	.8	2.2	1.3
Widowed	43.3	70.2	41.2	69.3
Divorced	2.5	1.4	3.9	2.1
Never married	7.1	7.2	6.6	5.7

[1] Civilian noninstitutional population only for both 1968 and 1978.

Note.—Details may not add totals due to rounding.

Source: U.S. Bureau of the Census, Current Population Report, series P-20. Nos. 187 and 338. (O'Neill study.)

TABLE 55.—SUMMARY COMPARISON OF ELDERLY ONLY FAMILIES CLASSIFIED BY TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY THRESHOLD

	Less than 100 percent	100 to 124.9 percent	125 to 149.9 percent	150 to 199.9 percent	200 percent or more	Total
Number of families (in thousands)	2,742	1,801	890	2,066	5,257	12,756
Percent	21.5	14.1	7.0	16.2	41.2	100.0
Percent with any social security income	87.5	96.7	98.5	96.7	94.0	93.7
Percent with any SSI income	29.9	13.7	6.5	2.4	.4	9.4
Percent of total family income comprised of social security benefits	74.9	63.9	68.8	67.0	26.2	37.6
Percent of total family income comprised of SSI	14.3	4.5	1.5	.3	.0	1.2
Number of persons (in thousands)	3,037	2,006	1,178	2,934	8,330	17,485

TABLE 55.—SUMMARY COMPARISON OF ELDERLY ONLY FAMILIES CLASSIFIED BY TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY THRESHOLD—Continued

	Less than 100 percent	100 to 124.9 percent	125 to 149.9 percent	150 to 199.9 percent	200 percent or more	Total
Percent	17.4	11.5	6.7	16.8	47.6	100.0
Average family size	1.11	1.11	1.32	1.42	1.58	1.37
Average family income (based on 1979 dollars)	$2,620	$3,930	$5,147	$6,426	$17,850	$9,874

Source.—Preliminary data from Survey of Income and Program Participation, Spring 1979 data.

TABLE 56.—PERCENTAGE DISTRIBUTION OF TOTAL FAMILY INCOME COMPRISED OF SOCIAL SECURITY INCOME FOR FAMILIES COMPRISED ONLY OF AGED INDIVIDUALS CLASSIFIED BY TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

[In percent]

	Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty	Total
Percent of total family income comprised of social security:						
1 to 24.9	1.2	1.1	0.0	0.0	24.3	10.4
25 to 49.9	4.5	11.2	14.5	14.6	42.6	23.6
50 to 79.9	30.4	30.9	54.5	61.5	26.6	35.6
80 to 89.95	8.2	12.6	14.8	10.7	0.2	6.4
90 or more	[1] 44.4	40.9	14.7	9.9	0.8	18.3
Percent of families with social security income	87.7	96.7	98.5	96.7	94.5	94.2
Percent of families without social security income	11.3	3.3	1.5	3.3	5.5	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

[1] The number 44.4 in the first column means that 44.4 percent of families with all individuals in the family over age 65 with total incomes less than poverty depend upon social security benefits for 90 percent or more of their income.

Source.—Preliminary data from Survey of Income and Program Participation, March 1979 data.

TABLE 57.—PERCENTAGE DISTRIBUTION OF TOTAL FAMILY INCOME COMPRISED OF SOCIAL SECURITY AND SUPPLEMENTAL SECURITY INCOME FOR FAMILIES COMPRISED ONLY OF AGED INDIVIDUALS CLASSIFIED BY TOTAL MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

	Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	Total
Percent of total family income comprised by social security:				
1 to 24.9	1.2	0.2	0.0	8.1
25 to 49.9	1.5	8.3	14.7	22.4
50 to 79.9	15.4	29.7	51.3	32.5
80 to 89.9	6.8	10.3	14.4	5.6
90	[1] 69.0	49.9	18.4	25.4
Percent of families with social security and/or SSI income	96.9	98.9	98.9	94.0
Percent of families without social security or SSI income	3.1	1.6	1.1	6.0
Total	100.0	100.0	100.0	100.0

[1] The number 69.0 in the first column means that 69 percent of families with all individuals in the family over age 65 with total incomes less than poverty depend upon social security and/or SSI benefits for 90 percent or more of their income.

Source: Preliminary data from Survey of Income and Program Participation, Spring 1979 data.

TABLE 58.—RECEIPT OF SOCIAL SECURITY, SUPPLEMENTAL SECURITY INCOME, FOOD STAMPS, AND COMBINATIONS THEREOF, AMONG FAMILIES COMPRISED ONLY OF ELDERLY INDIVIDUALS CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY THRESHOLD

Type of benefit	Less than 100 percent		100 to 149.9 percent	
	Number	Percent	Number	Percent
Social security	2,400	87.5	2,618	97.3
SSI	820	29.9	1,068	39.7
Food stamps	762	27.8	143	5.3
Social Security only [1]	1,574	57.4	2,242	83.3
SSI only [1]	86	3.1	38	1.4
Food stamps only [1]	20	0.7	0	0.0
Social security and food stamps	606	22.1	143	5.0
Social Security and SSI	594	21.7	271	10.1
SSI and food stamps	481	17.5	64	2.4
All 3	346	12.6	64	2.4
No social security, SSI or food stamps	105	3.8	38	1.4
Total	2,742		2,691	

[1] Row four which is labelled "Social Security only" means the familly only receives social security and does not receive SSI or food stamps. The family could be receiving other types of income. The same is true of rows 5 and 6.

Source: Preliminary data from Survey of Income and Program Participation, Spring 1979 data.

TABLE 59.—PERCENTAGE SHARE OF TOTAL INCOME RECEIVED FROM DIFFERENT SOURCES OF INCOME FOR FAMILIES COMPRISED ONLY OF ELDERLY INDIVIDUALS AND CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

Source of income	All	Total family income as a percent of the poverty level				
		Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty
OASDI	37.6	74.9	75.4	68.8	67.0	26.2
SSI	1.2	14.3	0.0	1.5	0.3	0.0
Veterans	1.0	2.3	0.0	3.5	0.8	0.8
Public pension	8.8	1.7	3.7	3.7	4.5	10.5
Private pension	6.2	2.6	1.9	3.9	8.2	6.7
Earnings	12.7	0.3	3.4	3.5	5.0	15.8
Property income	27.1	3.3	6.2	14.5	12.0	33.3
Other	5.4	0.6	3.1	0.6	2.2	6.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note.—This table shows the percentage share of the various sources of income for aged only based on their family income compared to the poverty level. The table illustrates that as a family's income increases, the percentage of total income from social security and supplemental security income declines. For families with incomes below the poverty level, 74.9 percent of their income is social security while only 26.2 percent of total income are social security benefits for families with incomes twice the poverty level.

Source: Preliminary data from Survey of Income and Program Participation March 1979 data.

TABLE 60.—PERCENT OF FAMILIES, COMPRISED OF AGED ONLY, WITH SELECTED SOURCES OF INCOME CLASSIFIED BY THE TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

Type of program benefit	Total	Total family income as a percent of the poverty level				
		Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty
Social security	93.8	87.5	96.7	98.5	96.7	94.0
SSI	9.4	29.9	13.8	6.5	2.4	0.4
Food stamps	7.2	27.4	5.7	3.6	0.1	0.5
Veterans	6.8	6.6	11.2	13.6	4.6	5.0
Earnings	19.4	2.4	9.8	10.9	17.2	34.0
Property income	75.3	40.8	60.4	83.4	85.4	93.0
Public pension	7.9	0.8	5.5	1.8	3.2	15.3
Private pension	26.2	5.9	9.7	20.2	38.2	38.7

Note.—This table depicts the percent of aged only families that receive a selected source of income. For example, the first number means that 93.8 percent of families comprised of only individuals 65 or older receive social security as a part of their total family income. The bottom number in the last column means that 38.7 percent of families that have a total income of twice that of the poverty level receive private pensions.

Source: Preliminary data from Survey of Income and Program Participation, March 1979 data.

TABLE 61.—PERCENTAGE DISTRIBUTION FOR SELECTED SOURCES OF INCOME OF AGED ONLY FAMILIES CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

Type of program benefit	Percent of total income received by families with only elderly individuals	Total family income as a percent of the poverty level				
		Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty
Social security	54.4	11.4	11.3	6.7	18.8	51.2
SSI	24.1	70.4	21.7	4.6	2.5	0.7
Food stamps	5.5	82.4	8.2	2.3	0.3	6.7
Veterans	15.2	12.7	10.0	11.7	7.7	58.0
Public pension	23.4	0.8	4.4	0.8	2.7	91.3
Private pension	41.4	0.8	1.7	2.3	14.0	81.2
Earnings	1.3	0.0	1.5	1.0	4.1	93.2
Property income	21.6	0.7	1.3	1.9	4.7	91.4

Note.—This table represents the percentage of selected sources of income distributed to aged-only families at various income levels. The first number in the first column says that 54.4 percent of all social security benefits paid are received by families that only contain aged members. The second number in the first row shows that 11.4 percent of all social security dollars given to aged only families are received by families whose total family income is less than 100 percent of the poverty level. The last number in the first row represents the percent of all social security dollars received by aged only families whose income is twice that of the poverty level (51.9 percent).

Source: Preliminary data from Survey of Income and Program Participation, March 1979 data.

TABLE 62.—SUMMARY COMPARISON OF FAMILIES WITH AN ELDERLY MEMBER CLASSIFIED BY TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

	Percent					
	Less than 100	100 to 124.9	125 to 149.9	150 to 199.9	200 or more	Total
Number of families (in thousands)	3,305	2,193	1,067	2,760	9,255	18,579
Percent	17.8	11.8	5.7	14.9	49.8	100.0
Percent with any social security income	86.9	96.5	98.7	93.6	89.0	90.8
Percent with any SSI income	32.6	15.6	8.3	8.5	3.0	10.9
Percent of total family income comprised of social security benefits	53.0	54.8	57.4	43.9	16.5	20.0
Percent of total family income comprised of social security and SSI benefits	17.4	3.4	2.8	6.5	0.3	1.1
Number of persons (in thousands)	4,617	3,180	1,744	4,894	19,465	33,899
Percent	13.6	9.4	5.1	14.4	57.4	100.0

TABLE 62.—SUMMARY COMPARISON OF FAMILIES WITH AN ELDERLY MEMBER CLASSIFIED BY TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL—Continued

	Percent					
	Less than 100	100 to 124.9	125 to 149.9	150 to 199.9	200 or more	Total
Average family size	1.40	1.45	1.63	1.77	2.10	1.82
Average family income	2,799	4,325	5,609	7,178	20,495	12,606

Source: Preliminary data from Survey of Income and Program Participation, March 1979 data.

TABLE 63.—PERCENTAGE DISTRIBUTION OF TOTAL FAMILY INCOME COMPRISED OF SOCIAL SECURITY INCOME FOR FAMILIES WITH AN AGED INDIVIDUAL CLASSIFIED BY TOTAL MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

	Total family money income as a percent of the poverty level					
	Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty	Total
Percent of total family income comprised by social security:						
1 to 24.9	2.4	2.9	3.1	3.6	33.6	18.1
25 to 49.9	6.8	12.7	17.1	19.3	32.3	22.6
50 to 79.9	31.9	30.8	51.6	50.3	20.7	30.1
80 to 89.9	7.2	13.2	12.0	10.2	1.2	5.6
90	38.2	36.2	15.0	10.4	0.5	14.0
Percent of families with social security income	86.5	95.8	99.8	93.8	88.3	90.4
Percent of families without social security income	13.5	4.2	0.2	6.2	11.7	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note.—This table illustrates the percentage of the total family income which are social security benefits for families which include at least one aged member. The first column shows for those families below poverty how much of the family's income is comprised of social security payments. For 38.2 percent of the families below poverty, more than 90 poercent of their income is derived from social security payments. This column also shows that more than 86.4 percent of these families receive social security and 13.5 percent of these families do not receive any social security payments.

Source: Preliminary data from Survey of Income and Program Participation, March 1979 data.

TABLE 64.—PERCENT OF FAMILIES, WHICH INCLUDE AN AGED MEMBER, WITH SELECTED SOURCES OF INCOME

Type of program benefit	Total	Total family money income as a percent of the poverty level				
		Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty
Social security	84.7	83.8	95.9	99.4	84.3	82.5
SSI	14.1	46.0	23.7	16.9	26.8	6.3
Food stamps	6.7	29.9	5.7	6.6	0.3	3.5
Veterans	9.2	10.5	9.7	17.5	15.6	7.5
Earnings	62.1	32.2	41.3	54.8	50.9	70.5
Property	79.8	53.6	56.9	52.0	74.2	87.9
Public pension	10.1	0.0	2.8	0.0	3.2	13.8
Private pension	23.7	2.3	8.2	29.4	28.2	27.2

Note.—This table depicts the percent of families who include at least one aged member over age 65, that receive income of a given type. The first number in the first column means that 84.7 percent of all these families receive social security payments. The first number in the last column means 82.5 percent of all families with an elderly member whose income is more than twice that of the poverty level receive social security payments.

Source: Preliminary data from Survey of Income and Program Participation, March 1979 data.

TABLE 65.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME FOR FAMILIES WHICH INCLUDE AN AGED INDIVIDUAL CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

Type of program benefit	Total	Total family money income as a percent of the poverty level				
		Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty
Social security	78.9	9.3	9.5	5.6	17.2	58.4
SSI	45.7	50.9	15.8	4.4	15.9	13.1
Food stamps	10.4	72.0	6.1	1.6	3.4	16.9
Veterans	32.1	9.2	7.7	8.7	11.7	62.8
Public pension	44.7	0.4	2.6	0.4	2.3	94.3
Private pension	59.0	0.6	1.3	2.1	12.8	83.2
Earnings	5.3	0.5	1.4	1.0	3.9	93.2
Property income	31.3	0.8	1.2	1.4	3.9	92.7

Note.—This table shows for families with one aged member the percentage of selected sources of income received by families classified by poverty level. The first number in the first column, 78.9 percent, means that 78.9 percent of all social security benefits are given to families that include an aged member. The next number in the first row means 9.3 percent of all social security benefits received by these families are given to those families that have an income of less than 100 percent of the poverty level.

Source: Preliminary data from Survey of Income and Program Participation, Spring 1979 data.

TABLE 66.—ASSET INCOME AND HOME OWNERSHIP BY AGE, SEX, AND MARITAL STATUS, 1975 [1]

	Total	Age	
		65–72	73 and over
Couples:			
Population (in thousands)	6,826	4,118	2,708
Average personal income, dollars	10,652	11,504	9,359
Percent with asset income	73.1	72.8	73.7
Mean asset income, dollars	2,780	2,684	2,924
Percent own home	82.4	83.7	80.4
Percent of owners with mortgage	12.8	18.8	10.4
Nonmarried men:			
Population (in thousands)	2,020	971	1,049
Average personal income, dollars	5,604	5,622	5,588
Percent with asset income	52.6	47.6	57.1
Mean asset income, dollars	1,916	1,620	2,145
Percent living alone	60.9	54.7	66.5
Percent own home	55.8	52.8	58.0
Percent of owners with mortgage	9.1	13.4	6.1
Nonmarried women:			
Population (in thousands)	7,962	3,314	4,648
Average personal income, dollars	4,237	4,825	3,821
Percent with asset income	55.9	57.7	54.6
Mean asset income, dollars	1,673	1,657	1,684
Percent living alone	62.3	65.3	60.2
Percent own home	58.6	59.6	57.8
Percent of owners with mortgage	9.1	12.9	6.0

[1] Asset income includes income derivable from (1) interest on savings accounts or bonds; (2) dividends from stockholdings and membership in associations; (3) periodic receipts from estates or trust funds; (4) net income from rental of property; (5) receipts from boarders or lodgers; and (6) net royalties.

Source: Survey of Income and Education. (O'Neill study).

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EXPLANATION OF THE SOCIAL SECURITY ACT AMENDMENTS OF 1983

As Reported by the Subcommittees on
Social Security, Health, and Public Assistance
and Unemployment Compensation

of the

Committee on Ways and Means

February 28, 1983

Prepared for the use of the Committee on Ways and Means
by its staff

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SOCIAL SECURITY ACT AMENDMENTS

TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM

Issue	Current Law
1. Extension of coverage	
a. New Federal employees	Permanent civilian employees of the federal government are not covered by social security. (Part-time temporary civilian employees and members of the armed forces are covered by social security.) By far the greatest number of Federal employees not covered by social security (2.7 million) participate in the Civil Service Retirement System (CSRS) on a mandatory basis. Legislative branch employees are not covered by social security, and have the option of not participating in CSRS. Members of Congress, the President and the Vice-President are not covered under social security. As of January 1, 1983, federal employees are covered under the medicare program and pay the medicare portion of the social security payroll tax.
b. Employees of nonprofit organizations	Participation in the social security system is optional for nonprofit organizations (charitable, religious, and educational). Most such organizations have chosen to participate, but about 15 percent of employees of nonprofit organizations are presently not covered. A nonprofit organization which has elected to participate can file to withdraw from social security after it has been in the system for 8 years, and termination is effective two years after the end of the calendar quarter in which the notice was filed.
2. Termination of coverage by State and local governments	Participation in social security is optional for State and local governments. Once a government has chosen to join social security, it may withdraw by providing the Federal government with two years advance notice of its intent to withdraw. A notice of termination becomes effective at the end of the calendar year two years after the notice is filed. Governments that have withdrawn are not allowed to rejoin. (About 70 percent of all State and local government employees are presently covered by social security.)

Commission Recommendation	Subcommittee Bill
Extend social security coverage to all new Federal civilian employees beginning January 1, 1984. The Commission also recommends the development of a supplemental retirement plan for newly-hired Federal employees. (Such action would fall within the jurisdiction of the Committee on Post Office and Civil Service.)	Provides for coverage under social security of the following groups: (1) all Federal employees hired on or after January 1, 1984, including those with previous periods of Federal service; (2) legislative branch employees on the same basis, as well as current employees of the legislative branch who are not participating in the Civil Service Retirement System as of December 31, 1983; (3) All Members of Congress, the President and the Vice-President effective January 1, 1984; (4) all new employees of the judicial branch, including judges, on or after January 1, 1984. Language in the Committee report would affirm Congressional intent and obligation to implement a supplemental plan for new Federal employees.
Extend social security coverage on a mandatory basis to all employees of nonprofit organizations as of January 1, 1984.	Same as Commission recommendation; nonprofit employees age 55 or older affected by this provision would be deemed to be fully insured for retirement, survivors and disability benefits after acquiring six quarters of coverage after January 1, 1984.
Prohibit State and local governments from terminating coverage for their employees if the termination has not taken effect by the date legislation is enacted.	Same as Commission recommendation. In addition, allows State and local governments which have withdrawn from the social security system to voluntarily rejoin. Once having rejoined, the governmental entity would be precluded from terminating coverage.

TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM—Continued

Issue	Current Law
3. Windfall benefits for persons with pensions from noncovered employment	Social security benefits are determined through a formula based on average lifetime earnings in jobs covered by social security. The benefit formula is weighted so that persons with low average lifetime earnings receive proportionally a higher rate of return on their contributions to social security than workers with relatively high average lifetime earnings. Workers with short periods of covered work also get this advantage, because their few years of earnings are averaged over a 35-year period to get their average monthly covered earnings on which the benefit is based. This high rate of return for persons who have spent a short period of time in covered employment is what is often characterized as "windfall" benefits.
4. Delay cost-of-living adjustment	Social security benefits are adjusted automatically every June (July check) to reflect increases in the consumer price index. This cost-of-living adjustment is measured from the average CPI of the first quarter of the previous year in which a benefit increase was provided to the average of the first quarter of the current year. No cost-of-living increase is provided in any year in which the increase in the CPI is less than 3 percent. The medicare monthly premium for part B physician coverage increases each July 1. (For those people receiving social security cash benefits, the premium is deducted from their checks.)

Commission Recommendation	Subcommittee Bill
Modify the social security benefit formula so as to eliminate "windfall" benefits received by workers who spend most of their careers in jobs not covered by social security but who have worked long enough in covered employment to be eligible for social security benefits. (No specific formula was recommended.) This formula would apply only to future retirees who are also eligible for a pension from noncovered work.	Implements the Commission recommendation as follows: (1) Applies a different benefit formula to workers who are eligible for a pension from noncovered employment. Under the current formula, benefits are 90% of the first $254 of average monthly earnings, 32% of earnings from $254 to $1,538, and 15% of earnings above $1,538. The new formula applicable to those with pensions from noncovered employment would substitute 61% for the 90% factor. (2) Provides a guarantee that the resulting reduction in the worker's social security benefit cannot be more than one-half the amount of the noncovered pension. (3) This provision will be applicable to persons reaching age 60 after December 31, 1983.
Delay the June 1983 cost-of-living adjustment until December (January 1984 check), and provide all subsequent cost-of-living adjustments in December (January checks). All subsequent adjustments would be based on the CPI increase from the third quarter of the last year in which a cost-of-living adjustment was provided to the third quarter of the current year.	Same as Commission recommendation. For the December 1983 adjustment only, the 3 percent trigger is waived. In addition, to conform to the delay in the cost-of-living adjustment, the SMI premium would not be adjusted until January 1, 1984.

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TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM—Continued

Issue	Current Law
5. Taxation of Social Security (OASDI) Benefits for Higher-Income Persons	Social security benefits and railroad retirement benefits are excluded from gross income for purposes of Federal income taxes.

Commission Recommendation	Subcommittee Bill
Beginning in 1984, include 50 percent of social security (OASDI) benefits in taxable income if a taxpayer's adjusted gross income (AGI), exclusive of social security benefits, exceeds $20,000 for single persons and $25,000 for a married couple filing a joint return. (The Commission explicitly recognized that its proposal produces a notch at the recommended income thresholds and left its resolution to the Congress.) The proceeds from the taxation of benefits, as estimated by the Treasury Department, would be credited to the OASDI Trust Funds under a permanent appropriation.	Beginning in 1984, a portion of social security benefits and benefits payable under the Railroad Retirement Act would be included in taxable income for taxpayers whose adjusted gross income combined with 50 percent of their benefits exceeds a base amount. The base amount would be $24,500 for an individual, $31,500 for a married couple filing a joint return and zero for married persons filing separate returns. The amount of benefits that could be included in taxable income would be the *lesser* of one-half of benefits or one-half of the excess of the taxpayers' combined income (AGI + one-half of benefits) over the base amount. The proceeds from the taxation of benefits, as estimated by the Treasury Department, would be transferred to the appropriate trust funds. An annual report from the Secretary of the Treasury concerning the transfers would be required. Special rules would be provided to adjust for repayments by individuals of benefits previously received and subsequently determined to be overpayments. Special rules also would be provided for attributing appropriate portions of lump-sum benefit payments to the years for which they had been paid. Annual information returns would be filed by the Social Security Administration and the Railroad Retirement Board with the IRS and furnished to individual beneficiaries. The 50 percent of social security benefits received by non-resident aliens would be subject to the withholding tax applicable to such individuals under current law. (The IRS would be authorized to disclose to SSA and RRB certain tax return information for purposes of administering this provision.) Benefits subject to tax would include any workmen's compensation whose receipt caused a reduction in disability benefits.

TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM—Continued

Issue	Current Law

6. 1984–1990 Social Security Tax Rates and 1984 Credit

Several increases in payroll tax rates are already scheduled to take effect between 1985 and 1990 as indicated below:

a. FICA Tax Rates

	Employer-Employee Rate (Each)		
	OASDI	HI	OASDI-HI
1984	5.4	1.30	6.70
1985	5.7	1.35	7.05
1986	5.7	1.45	7.15
1987	5.7	1.45	7.15
1988	5.7	1.45	7.15
1989	5.7	1.45	7.15
1990	6.2	1.45	7.65

b. Tax Credit for 1984 FICA Taxes

No deduction or credit is available for employee FICA contributions.

7. Tax on Self-Employment Income

The Self-Employment Contributions Act (SECA) imposes two taxes (OASDI and HI) on self-employed individuals. Currently, self-employed persons pay OASDI tax at a rate approximately equal to 75 percent of the combined employer-employee rate and HI tax at a rate that is 50 percent of the combined employer-employee rate.

Self-employed persons do not receive an income tax deduction for self-employment taxes paid.

Commission Recommendation	Subcommittee Bill
Advance the payroll tax increase scheduled for 1985 to 1984 and part of the increase scheduled for 1990 to 1988, as indicated below:	

	Employer-Employee Rate (Each)		
	OASDI	HI	OASDI-HI
1984	5.70	1.30	7.00
1985	5.70	1.35	7.05
1986	5.70	1.45	7.15
1987	5.70	1.45	7.15
1988	6.06	1.45	7.51
1989	6.06	1.45	7.51
1990	6.20	1.45	7.65

Same as Commission proposal

Provide a one-time refundable income tax credit to employees in 1984 that would completely offset the increased FICA taxes they would pay that year.

A credit of 0.3% of wages would be allowed against 1984 employee FICA taxes to reduce the net FICA rate to 6.70%. Appropriations to Trust Funds would be based on a 7.00% rate. Conforming changes would be made in Tier I railroad retirement tax rates and the credit against 1984 employee taxes.

Beginning in 1984, the OASDI rate for self-employed persons would be equal to the combined employer-employee rate.

Beginning in 1984, the OASDHI rates for self-employed persons would be equal to the combined employer-employee OASDHI rate.

Self-employed persons would be allowed a deduction, in computing adjusted gross income for income tax purposes, for 50 percent of self-employment OASDI taxes paid.

Self-employed persons would be allowed a deduction, in computing adjusted gross income for income tax purposes, for 50 percent of self-employment OASDI and HI taxes paid.

A credit of 0.3 percent of self-employment income would be allowed against 1984 SECA taxes to reduce the net SECA rate to 13.70 percent. Appropriations to the trust funds would be based on a 14.0 percent rate. The income tax deduction would be computed on the basis of the net SECA tax liability.

(The doubling of the HI arate is assumed in the Administration's estimates of trust fund solvency as a result of the Commission proposals.)

TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM—Continued

Issue	Current Law

8. Reallocation of OASI and DI Trust Funds

The OASDI tax rate is allocated as indicated below:

	Current Law (percent)	
	OASI	DI
Employees and Employers, Each:		
1984	4.575	0.825
1985–89	4.750	0.950
1990 and after	5.100	1.100
Self-Employed:		
1984	6.8125	1.2375
1985–89	7.1250	1.4250
1990 and after	7.6500	1.6500

9. Benefits for Certain Widows, Divorced and Disabled Women

a. Benefits for Surviving Divorced or Disabled Spouse Who Remarries

Current law permits the continuation of benefits for surviving spouses who remarry after age 60. However, benefits for disabled widow(er)s and surviving divorced spouses (payable from age 50 to 60), for surviving divorced spouses (payable at age 60) and disabled surviving divorced spouses (payable from age 50 to 60) are terminated if the individual remarries.

b. Change in Indexing Deferred Survivor Benefits

Survivor benefits are based on the amount of benefits that would have been payable to the decreased worker as determined by applying a benefit formula to the worker's earnings in covered employment. Such earnings are indexed to reflect economy-wide wage increases through the second year before the death of the worker. Beginning with the year of death, benefit levels are indexed to price changes.

Should the worker die long before retirement age, the benefit to which the widowed spouse ultimately becomes eligible in old-age (or at disability) is based on outdated wages. Thus, women who become widowed at a relatively young age, but do not become eligible for benefits for many years, are deprived of their husband's unrealized earnings as well as the economy-wide wage increases that may have occurred since the death of their husbands.

Commission Recommendation	Subcommittee Bill
Allocate OASDI tax so that both funds will have about the same fund ratios.	Specific allocation to be supplied by the Office of the Actuary, SSA.
Allow the continuation of benefits for the spouses described upon remarriage if that marriage takes place after the age of first eligibility for benefits.	Same as Commission recommendation, effective for benefits for months after December 1983. (No change would be made in the current dual entitlement provision of the law which allows an individual to receive only the highest benefit for which such individual is eligible.)
In the case of deferred survivor benefits, continue indexing the worker's earnings to reflect economywide wage increases rather than price increases. Such wage indexing would apply through the year the worker would have reached age 60, or two years before the survivor becomes eligible for aged or disabled widow's benefits, whichever is earlier.	Same as Commission recommendation, effective for newly eligible survivors as of January 1, 1985.

TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM—Continued

Issue	Current Law
9. Benefits for Certain Widowed, Divorced and Disabled Women—Con.	
c. Benefits for Divorced Spouses Regardless of Whether A Former Spouse Is Drawing Benefits	A divorced spouse, eligible for benefits at age 62, may not begin to draw social security benefits until the former spouse begins to draw benefits. For some divorced women, this means that they must wait several years beyond their own retirement age (because their former spouse delays retirement or otherwise fails to apply for benefits) before they can begin to draw benefits.
d. Increased Benefits for Disabled Widows and Widowers	Social Security benefits for widows and widowers are first payble at age 60. Benefits are payable in full (i.e. 100 percent of the worker's primary insurance amount) at age 65, and at reduced rates at ages 60-64 (i.e., phasing up from 71.5 percent of the primary insurance amount at age 60). Benefits are also payable at reduced rates to disabled widows and widowers aged 50-59 (i.e., phasing up from 50 percent of the primary insurance amount at age 50).
10. Stabilizer	Social security benefits are adjusted automatically every June to reflect increases in the Consumer Price Index. Such adjustments are made without regard to the status of the trust fund reserves. Income to the social security system depends on the level of wages on which social security contributions are made. When increases in prices outrun increases in wages, income to the trust funds falls behind increases in benefit payments, and cash flow problems may result, depending on whether accumulated fund reserves are sufficient to make up the gap between income and outlays. There is no mechanism under current law to adjust trust fund outlays and revenues to take account of economic fluctuations.

Commission Recommendation	Subcommittee Bill
Allow divorced spouses (who have been divorced for at least 2 years) to draw benefits at age 62 if the former spouse is eligible for retirement benefits, whether or not benefits have been claimed or suspended because of substantial employment.	Same as Commission recommendation, effective for benefits for months after December 1984.
Increase benefits of disabled widow(er)s age 50–59 to 71.5 percent of the primary insurance amount, the amount to which widow(er)s are intitled at age 60.	Same as Commission recommendation, effective for benefits for disabled widows and widowers for months after December 1983.
Modify the cost-of-living adjustment formula during periods when trust fund reserves are running low in order to help stabilize reserves. Specifically, the Commission recommends that beginning with 1988, if the fund ratio of the combined OASDI Trust Funds as of the beginning of a year is less than 20.0%, the automatic cost-of-living (COLA) adjustment of OASDI benefits would be based on the lower of the CPI increase or the increase in average wages. Subsequently, when the balance in the trust funds has risen to at least 32 percent of estimated annual outlays, "catch-up" benefit payments would be made during the following year as supplements to monthly benefits otherwise payable to make up for any losses in inflation protection that result from basing COLA's on wages rather than prices, but only to the extent that sufficient funds are available over those needed to maintain a fund ratio of 32.0%.	Same as Commission recommendation.

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TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM—Continued

Issue	Current Law
11. Procedures to Assure Continued Benefit Payments (Fail-Safe)	Social security benefits are financed by a payroll tax fixed in the law. While benefits are paid out within the first five days of each month, payroll tax revenues are estimated daily by the Treasury, and credited to the trust fund accounts each day. If at any point revenues from the payroll tax exceed amounts needed for benefit payments, the excess is placed in the trust fund reserve. If revenues fall short of the amount needed, the reserves are drawn on to make up the difference. If the reserves are not adequate to make up the shortfall, under current law the trust funds have no way of making benefit payments on time. (Thus, it is considered critical to have at least one month's benefit payments in reserve at the beginning of each month, and to have enough of a reserve to carry benefit payments through downturns in revenues during the year.) Interfund borrowing was authorized during 1982, but this authority terminated at the end of the year.

Commission Recommendation	Subcommittee Bill
Authorize interfund borrowing by the OASDI trust funds from the HI trust fund for calendar years 1983–1987. The Commission also concluded that a "fail-safe" mechanism is necessary to assure that benefits are paid on time despite unexpectedly adverse economic conditions which might occur with little advance notice. Although the Commission does not recommend a specific mechanism, it suggests several possibilities beyond interfund borrowing, including authority to borrow for a limited period from the General Fund of the Treasury, temporary reductions in benefit increases or temporary increases in OASDI tax rates.	a. *Fixed Monthly Tax Transfers:* The Administration has proposed using a revised accounting procedure for crediting the trust funds at the beginning of each month with estimated revenues for the entire month. Under such a fixed monthly tax transfer procedure, Treasury will be required to estimate the amount of payroll tax revenue to be collected each month and transfer such sums to the trust funds at the beginning of the month. This procedure will help to alleviate potential cash flow problems by stabilizing monthly income to the OASDI trust funds prior to the point benefits are paid. The subcommittee bill makes this change in accounting procedures statutory. b. *Interfund borrowing:* Authorize interfund benefit borrowing between the OASI, DI and HI funds for calendar years 1983–87, with provision for repayment to the lending fund(s) of the principal and interest of all such loans (including amounts borrowed in 1982) at the earliest feasible time but not later than the end of calendar year 1989. Borrowing would be permitted only to the extent there is sufficient balance in the lending fund to meet its own obligations. c. *Managing Trustee Report to the Congress Concerning General Fund Borrowing Authority:* In the event the Managing Trustee of the Funds (Secretary of the Treasury) determines the reserve ratio will or has reached a point at which, in his judgment, borrowing from the general fund is necessary to assure timely payment of benefits, the Managing Trustee will submit to the Congress a proposed borrowing and repayment plan which must provide for repayment within two calendar years after the year of borrowing. Such borrowing may not proceed without the explicit authorization of the Congress and may, in no event, take place any earlier than 30 days following Congressional approval of the Managing Trustee's plan.

TITLE I. PROVISIONS AFFECTING THE FINANCING OF THE SOCIAL SECURITY SYSTEM—Continued

Issue	Current Law
12. Delayed Retirement Credit	Persons who delay retiring—and claiming social security benefits—beyond age 65 receive increases in their benefits amounting to 3 percent per year for each year they delay retirement up to age 71.
13. Reimbursement to Trust Funds for Military Wage Credits and Uncashed OASDI Checks	
a. Military Wage Credits	Gratuitous military wage credits are provided to persons who served in the military after September 16, 1940. Although members of the armed forces were compulsorily covered under social security in 1957, wage credits continue to be provided to military personnel in recognition of the value of non-cash compensation received. The cost of the additional benefits and the administrative expenses arising from these non-contributory wage credits are borne by the General Fund on a retroactive reimbursement basis (i.e., the costs are reimbursed only after benefits have been paid).
b. Uncashed OASDI Checks	The trust funds are not credited for any uncashed OASDI benefit checks. Instead, the value of benefit checks which are not cashed remains in the General Fund of the Treasury.

Commission Recommendation	Subcommittee Bill
Gradually increase the delayed retirement credit from 3% to 8% per year between 1990 and 2010.	Same as Commission proposal.
A lump-sum payment should be made to the OASDI Trust Funds from the General Fund of the Treasury for: (i) The present value of the estimated additional benefits arising from the gratuitous military service wage credits for service before 1957; (ii) the amount of the combined employer-employee OASDI taxes on the gratuitous military service wage credits for service after 1956 and before 1983. (In the future, the trust funds would be reimbursed on a current basis for such employer-employee taxes on such wage credits for service after 1982).	Same as Commission recommendations. In addition, the HI trust fund would be credited with the combined employer-employee HI taxes on gratuitous military wage credits for services after 1965 and before 1983. (The Administration's estimates of OASDI trust fund solvency assume this change).
Provide for a lump-sum payment to the OASDI trust funds from the General Fund representing the amount of uncashed benefit checks which have been isssued in the past.	Same as Commission recommendation. In addition, requires the implementation of a procedure under which: (1) the Treasury Department would make it possible to distinguish OASDI checks from other government checks; and (2) the trust funds would be credited on a regular basis with an amount equal to the value of all OASDI benefit checks which have not been negotiated for a period of 6 months.

TITLE II. ADDITIONAL PROVISIONS RELATING TO LONG-TERM FINANCING OF THE SOCIAL SECURITY SYSTEM

Issue	Current Law
Remaining long-term deficit	Under currently scheduled benefit and tax rates, the OASDI funds are projected to have a deficit of 2.09 percent of taxable payroll over the 75 year averaging period (1983–2055).

Commission Recommendation	Subcommittee Bill
The Commission's consensus package reduces the long-term deficit by 1.41 percent of payroll leaving .68 percent as a long-term deficit. The Commission recommended that the long-term deficit be eliminated, but no consensus was reached on an approach.	(1) *Adjustments in the Benefit Formula:* Reduces initial benefit levels by about 5 percent by decreasing the factors in the benefit formula by two-thirds of one percent each year for 8 years beginning in the year 2000. (Long-range savings: 0.40 percent of taxable payroll.) (2) *Tax Rates:* Increases OASDI tax rates by 0.24 percent for employers and employees each beginning January 1, 2015. (Long-range savings: 0.28 percent of taxable payroll.)

TITLE III. MISCELLANEOUS AND TECHNICAL PROVISIONS

Issue	Current Law
1. Cash managment	
a. Float allowance revision	Social security benefit checks are issued to beneficiaries on the third day of each month. Current Treasury procedures allow a two-day float before trust fund monies are actually transferred to the Treasury in order to pay the checks which have been issued.
b. Interest on late State deposits	The annual interest rate charged on late payments of social security contributions due on the earnings of State and local employees is 6 percent per annum.
c. Trust Fund Investment Procedures	Payroll tax revenue which is in excess of the amount necessary to pay current benefits must be invested in "special issue" obligations available for purchase only by the trust funds. Such obligations have maturities fixed with due regard for the needs of the trust funds and bear an interest rate equal to the average market yield on all marketable, interest bearing obligations of the U.S. which are not due or callable within 4 years.
d. Separate Treatment of Trust Fund Operations Under Unified Budget	Beginning with 1969, the financial operations of the social security trust funds have been included in the unified budget of the Federal Government.

Subcommittee Bill

Requires the Secretaries of Treasury and Health and Human Services to conduct a study consisting of two separate investigations. The first concerns the actual average length of time between the issuance of benefit checks and their redemption; the second would deal with the feasibility and desirability of providing for the transfer on a daily basis to the general fund from the appropriate trust fund amounts equal to the amounts of benefit checks which are paid by the Federal Reserve Banks on that day.

The Secretary of the Treasury would be required to promulgate regulations to implement the changes found appropriate by these investigations.

Changes the rate of interest charged on late payments of social security contributions due on the earnings of state and local employees to a rate equal to the average interest rate earned by new special obligations of the trust funds. (Effective with respect to payments due for wages paid after Dec. 31, 1983.

Several changes are made in the investment procedures of the social security trust funds based on recommendations made by the Commission. Most importantly, a new short-term rate would be added so that the trust funds would be invested at short or long-term rates in order to maximize return to the funds.

Retains the social security trust fund operations in the unified budget, but provides for the display of OASI, DI, HI and SMI fund operations as a separate function within the budget.

(A majority of the members of the National Commission recommended removing the operations of the trust funds from the unified budget.)

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Issue	Current Law
2. Elimination of Gender-Based Distinctions Under the Old-Age, Survivors, And Disability Insurance Program	
a. Divorced husbands	The Social Security Act provides for the payment of benefits to aged divorced wives and aged or disabled surviving divorced wives but benefits are not provided for similarly situated men.
b. Remarriage of Surviving Spouse before age 60	Widows and widowers who remarry before age 60 are treated differently with respect to their eligibility for benefits based on their deceased spouses' earnings.
c. Illegitimate Children	An illegitimate child may be eligible for benefits based upon a man's earnings, without regard to the appropriate State intestate laws, if, among other things, the man has been decreed by a court to be the father of the child, or the man is shown by evidence satisfactory to the Secretary to be the father of the child. Similar provisions do not currently apply when an illegitimate child claims a benefit based upon his mother's earnings.
d. Transitional Insured Status	Certain workers who attained age 72 before 1969 are eligible for social security benefits under transitional insured status provisions which require fewer quarters of coverage than would ordinarily be required. Wives and widows of eligible male workers who reached 72 prior to 1969 also are eligible for benefits under this provision, but husbands and widowers of eligible female workers are not.
e. Equalization of Special Age 72 Benefits under Section 228 (Prouty Benefits)	Special payments are provided to persons who attained age 72 before 1968 and who have no quarters of coverage and to persons age 72 in 1968 or after who have at least three quarters of coverage for every year after 1966 and before the year of attainment of age 72. However, even though each spouse must meet the same eligibility requirements he or she would have to meet if not married, once the eligibility of both is determined, the couple is treated as if the husband were the retired worker and the wife were the dependent. The benefit is allocated so that the husband is paid two-thirds of the benefit and the wife is paid one-third.

Subcommittee Bill

Amends the statute to conform to court decisions on this issue by providing social security benefits for aged divorced husbands and aged or disabled surviving divorced husbands based on their former wives' earnings records. (SSA is currently complying with the aforementioned court decisions.)

(The proposed amendments concerning the elimination of gender-based distinctions would be effective (unless otherwise noted) with respect to benefits payable for months after the month of enactment.)

Amends the statute to conform to court decisions by making the requirements for widowers' and widows' benefits consistent. (SSA is currently complying with the aforementioned court decisions.)

Provides that illegitimate children would be eligible for benefits based on their mother's earnings as they are currently for benefits based on their father's earnings.

Extends to husbands and widowers the transitionally insured status provisions which currently apply to wives and widows.

Provides that where both husband and wife each qualify for Prouty benefits under Section 228 of the Social Security Act, each would receive a full monthly benefit.

Issue	Current Law
2. Elemination of etc.—Con.	
f. Father's Insurance Benefits	A young wife, widowed mother or surviving divorced mother who has an entitled child under age 16 in her care receives a benefit for both herself and her child based upon the earnings of her husband. Under the law a similarly situated father cannot qualify for benefits based on his retired, disabled, or deceased wife's earnings.
g. Effect of marriage on childhood disability beneficiary	When a childhood disability beneficiary is married to another childhood disability beneficiary or to a disabled worker beneficiary, and the disability benefits of one of the beneficiaries is terminated because the beneficiary recovers or engages in substantial work, the continued eligibility of the other spouse depends upon the spouse's sex. A woman's childhood disability benefits end when her husband's disability benefits end. However, a man's childhood disability benefits are not terminated when his wife's disability benefits end.
h. Effect of Marriage on Other Dependents' or Survivors' Benefits	If a childhood disability beneficiary or disabled worker beneficiary marries a person receiving certain kinds of social security dependent or survivor benefits, the benefits of each individual continue. If the disabled beneficiary is a male and he recovers or engages in substantial work and his benefits are terminated, his wife's benefits also end. If, however, the disabled beneficiary is a woman, her husband's benefits are not terminated when her disability benefits end.
i. Credit for certain military	A widow (but not a widower) is permitted, under certain circumstances, to waive the right to a civil service survivor's annuity and receive credit (not otherwise possible) for military service prior to 1957 for purposes of determining eligibility for, and the amount of, social security survivors' benefits.

Subcommittee Bill
Amends the statute to conform to the court decisions on this issue by providing social security benefits for a father who has in his care an entitled child of his retired, disabled, or deceased wife (or deceased former wife). (SSA is currently complying with the aforementioned court decisions.)
Continues the benefits of a childhood disability beneficiary, regardless of sex, when the beneficiary's spouse is no longer eligible for benefits as a childhood disability beneficiary or disabled worker beneficiary.
Continues social security payments to an individual, regardless of sex, who is receiving dependents' or survivors' benefits, when his or her spouse is no longer eligible for childhood disability benefits or benefits as a disabled worker.
Allows widowers to exercise this option in the same way as is currently permitted for widows.

Issue	Current Law
3. Coverage	
a. Coverage of employees of foreign affiliates of American employers.	Work by a U.S. citizen outside the U.S. for a foreign subsidiary of a domestic corporation is covered by social security if the domestic corporation arranges for coverage by entering into a voluntary agreement with the Internal Revenue Service and the agreement applies to all citizens subsequently employed by the subsidiary if their work would be covered if performed in the U.S. A "foreign subsidiary" of a domestic corporation is defined as a foreign corporation of which: not less than 20 percent of its voting stock is owned by a domestic corporation; or more than 50 percent of its voting stock is owned by another foreign corporation and at least 20 percent of the latter corporation's voting stock is owned by a domestic corporation.
b. Extension of Coverage by an International Social Security Agreement	An international Social Security agreement is to establish "methods and conditions for determining under which system [i.e., the foreign system or our own] employment, self-employment, or other service shall result in a period of coverage". However, through an inadvertent drafting error earnings that are intended to be covered under the U.S. system pursuant to an international social security agreement are not covered because U.S. social security taxes cannot be imposed on the earnings.
c. Foreign Earned Income Exclusion from Net Self-Employment Income	U.S. citizens and resident aliens who are not residents of a foreign country for a full year compute their net self-employment income for purposes of social security taxes (SECA) without regard to the foreign earned income exclusion. However, no coverage is provided for these taxable earnings. U.S. citizens who are residents of a foreign country compute their net self-employment income excluding amounts which are also excluded from income tax purposes by the foreign earned income exclusion.

Subcommittee Bill

Broadens the availability of social security coverage to American citizens working abroad by: (1) permitting coverage of American citizens working outside the United States for a foreign affiliate of an American employer; and (2) reducing the ownership interest in the foreign affiliate that is required to be held by the American employer from 20 percent to 10 percent (either directly or through one or more entities). These changes would be effective upon enactment.

In addition, coverage would be extended to employees of American employers and affiliates who are residents of the United States as well as American citizens. (This provision applies generally to remuneration paid after December 31, 1983.)

Provides for the imposition of social security taxes if an international social security agreement provides for coverage under the U.S. social security system. (Effective for taxable years after the date of enactment.)

Provides that all net self-employment income would be computed for SECA purposes without regard to the foreign income exclusion, effective with respect to remuneration paid after December 31, 1983.

In addition, provides that foreign earned income which is currently subject to social security self-employment tax would be creditable for social security coverage purposes, effective with respect to taxable years beginning December 31, 1981.

Issue	Current Law
3. Coverage—Con.	
d. Standby Pay	Any payment (other than vacation or sick pay) made to an employee after the month in which he or she attains age 62, where the employee did not work for the employer in the period for which such payment is made, is excluded from the definition of wages for both benefit and tax purposes.
e. Exclusion of Payments under Simplified Employee Pension Plans from Social Security Coverage	In 1978, the Internal Revenue Code was amended to exclude from wages for social security tax purposes employer payments to or on behalf of an employee under a simplified employee pension (SEP) plan. However, no corresponding change was made to the Social Security Act definition of covered wages.
f. Coverage Status under Social Security of Certain Entities in the State of Utah	Utah is permitted to extend social security coverage to specific entities listed in the law as separate coverage groups. The names of some of the entities specifically listed in the law have changed since the provision was enacted.
g. Effective dates of international social security agreements	Totalization agreements can only become effective after the expiration of a period during which each House of the Congress has been in session on each of 90 days. (This has been interpreted to mean that both Houses of Congress must be in session on a particular day for it to count in the 90-day calculation.)

Subcommittee Bill
Includes in the statutory definition of wages, payments made to an individual with the expectation that he or she will subsequently render services (effective with respect to calendar years beginning after the sixth month after date of enactment).
Amends the Social Security Act to include in the definition of covered wages for social security tax purposes employer contributions to a simplified employee pension (SEP) plan. Effective with respect to remuneration paid after December 31, 1983.
Amends the provision in the Social Security Act listing entities for which utah may arrange social security coverage to provide that coverage would not be affected by a subsequent change in the name of any of the entities.
Provides that totalization agreements can become effective after the expiration of a period during which only one House of the Congress must be in session on each of 60 days.

Issue	Current Law
3. Coverage—Con.	
h. Definition of Employer for Withholding on Sick Pay	Present law includes in the definition of wages for the purpose of withholding social security and railroad retirement taxes, payments made under a sick pay plan to an employee or any of his dependents by a third-party on account of the employee's illness. Proposed Treasury regulations would require a third-party payor (for exemple, an insurance company) as well as an employer, to withhold social security or railroad retirement taxes on the sick pay payments they make as if they were paying wages. However, the third-party payor would be permitted to shift responsibility for the employer's portion of the tax to the last employer for whom the employee worked.
4. Additional amendments	
a. Technical and Conforming Amendments to the Maximum Family Benefit Provisions	When children are simultaneously entitled to benefits on the records of two or more workers, the Maximum Family Benefits payable on each record are combined for the purposes of determining the benefits payable to those children. The law contains a limit, however, on the highest possible combined Maximum Family Benefit, sometimes referred to as the super maximum. Whenever the wage base increases (in January of every year), the super maximum is recomputed. In addition, in June of each year the super maximum is increased when the cost-of-living adjustment is made in general benefit levels. Thus, families whose benefits are limited by the super maximum can have their benefits unexpectedly increased or decreased each January when the super maximum is recomputed.
b. Northern Mariana Islands	The U.S. social security system will become applicable to the Northern Mariana Islands (NMI) upon termination of the U.S. trusteeship of the Trust Territory of the Pacific Islands (TTPI), or earlier if the governments of the United States and NMI agree.

Subcommittee Bill
In the case of sick pay payments made by or on behalf of a multiemployer plan, the plan would be considered as the last employer.
Provides that after initial entitlement, a family's super maximum would be adjusted each year when a cost-of-living increase is provided to everyone on the benefit rolls.
Makes the U.S. social security system applicable to the Northern Mariana Islands beginning with January 1 following the termination of the trusteeship of the TTPI.

Issue	Current Law
4. Additional amendments—Con.	
c. Lower from 72 to 70 the Age Beyond Which No Further Delayed Retirement Credits Are Available	Delayed retirement credits are now provided for months from age 65 to age 72 for which benefits are not paid because the worker has substantial earnings from work or does not apply for benefits. These credits are intended to provide partial relief to workers who continue working past age 65 and who for-go benefits under the earnings test. The age at which the earnings test no longer applies decreased from 72 to 70 on January 1, 1982. However, delayed retirement credits are still provided for work after age 70.
d. Relaxation of Insured Status Requirements for Certain Workers Previously Entitled to Disability Insurance Benefits	Workers who are disabled before age 31 have a lower insured status requirement than older workers. However, such a worker who recovers from his disability and subsequently becomes disabled again at age 31 or later may have difficulty establishing entitlement to disability benefits at that time because he has not had sufficient time to obtain the necessary 20 quarters of coverage before his subsequent disability.
e. Illegitimate Children of Disabled Beneficiaries—First Month of Entitlement	The first month for which certain benefits are paid is delayed from the month *during which* the individual satisfied the various entitlement conditions to the first month *throughout which* those conditions were satisfied. This provision does not apply to the benefits of illegitimate children of retired beneficiaries. However, this provision does apply to the illegitimate children of disabled workers.
f. Continue Benefits to Disabled Widow(er) Who Marries a Retired or Disabled Worker	Disabled widow(er)s are paid as auxiliary beneficiaries on their spouses' earnings records. When a disabled widow(er) under age 60 marries an old-age or disability beneficiary, his or her auxiliary social security benefits stop until he or she reaches age 62. However, when a disabled widow(er) marries an individual entitled to widow(er)s, parents or child's benefits, the benefits continue.

Subcommittee Bill
For persons who attain age 70 after December 1983, delayed retirement credits would not be given for months in which social security benefits are not paid after age 70. For persons who attain age 70 before January 1984, delayed retirement credits will be granted without regard to the changes in law which result from this section except that no credits would accrue for months after December 1983.
Provides that a worker who had a period of disability which began before age 31, recovered, and then became disabled again at age 31 or later would again be insured for disability benefits if he/she had quarters of coverage in half the calendar quarters after age 21 and through the quarter in which the later period of disability began (up to a maximum of 20 out of 40 quarters). Effective generally for applications filed after enactment.
Provides social security monthly benefits to the illegitimate child of a disabled worker for a month in which the child satisfied all other entitlement conditions but was not eligible for benefits because the acknowledgment or court decree or order establishing parenthood occurred later than the first day of that month. Effective on enactment.
Provides that social security benefits of a disabled widow(er) will not terminate if the beneficiary marries an old-age or disability insurance beneficiary. Effective for benefits payable after enactment.

Issue	Current Law
4. Additional amendments—Con.	
g. One Month Retroactivity of Widows' and Widowers' Benefits	The payment of retroactive benefits is prohibited if such payment would require the lowering of future benefits.
h. Clarify the Provision in Social Security Law Exempting Benefits Under SSA-Administered Programs from Assignment	Since 1935, the Social Security Act has prohibited the transfer or assignment of any future social security or SSI benefits payable and further states that no money payable or rights existing under the Act shall be subject to execution, levy, attachment, garnishment, or other legal process, or to the operation of any bankruptcy or insolvency law. Based on the legislative history of the Bankruptcy Reform Act of 1978, some bankruptcy courts have considered social security and SSI benefits listed by the debtor to be income for purposes of a Chapter XIII bankruptcy and have ordered SSA in several hundred cases to send all or part of a debtor's benefit check to the trustee in bankruptcy.
i. Use of Death Certificates to Prevent Erroneous Benefit Payments to Deceased Individuals	There are currently no well-developed procedures or arrangements to permit SSA to determine on a timely basis when a beneficiary has died.
j. Study of SSA as an Independent Agency	The Social Security Administration is currently part of the Department of Health and Human Services.

Subcommittee Bill
Allows an aged widow or widower to receive actuarially reduced benefits for the month in which the insured spouse died, if the application is filed in the following month, even though the retroactive payment would result in lower future monthly benefits than would be the case if benefits were not paid retroactively. Effective for applications filed after the second month following the month of enactment.
Specifically provides that social security and SSI benefits may not be assigned notwithstanding any other provisions of law, including P.L. 95-598, the "Bankruptcy Reform Act of 1978". Effective on enactment.
Provides authority for the Secretary of HHS to contract with states for death certificate information. This information would be matched with SSA benefit records to assure that benefit payments are promptly terminated when the beneficiary dies.
Authorizes a feasibility and implementation study with respect to establishing SSA as an independent agency. Such study shall include but not be limited to the following points: the feasibility of changing the current status of SSA; how to manage the transition; what authorities would need to be transferred or amended; what programs would be involved; what agency administrative relationships would need to be adjusted, etc. The study would be conducted (in consultation with the Commissioner of Social Security) by a panel of administrative experts appointed by the House Committee on Ways and Means and the Senate Committee on Finance, with a report and recommendations to be submitted to the Committees no later than January 1, 1984. (The Commission recommended conducting a feasibility study.)

Issue	Current Law
4. Additional amendments—Con. **k. Public Pension Offset**	Persons who became eligible for a public pension prior to December 1982 and who did not meet the conditions of the public pension exception clause are subject to a dollar-for-dollar offset of their social security benefit by the amount of their public pension. (This 100 percent offset will also apply to all persons becoming eligible for a public pension after June 1983.) Under a provision adopted last year, only persons who become eligible for a public pension from December 1982 through June 1983 and who meet a "one-half support" dependency test would be exempt from the offset.

Subcommittee Bill
For persons who become eligible for their public pension after June 1983, the amount of the public pension used for purposes of the offset against social security benefits would be one-third of the public pension. (This provision is similar to a House-passed provision included in last year's disability bill, H.R. 7093.)

TITLE IV. SUPPLEMENTAL SECURITY INCOME (SSI) PROVISIONS

Issue	Present Law
SSI cost-of-living adjustment and disregard	(a) The current maximum SSI maximum monthly SSI benefit is $284.00 for a single person and $426.00 for married couples. Benefits are indexed to the Consumer Price Index (CPI). Cost-of-living increases are provided annually in July if the CPI for the first quarter of the calendar year increases by at least 3 percent over the first quarter of the previous year. Benefits are increased by the same percentage as social security benefits. This occurs through a reference in the SSI law to the social security cost-of-living provision. For example, the current payment level of $284.00 per individual, which became effective July 1982, represents an increase of 7.4 percent (or $19.30 monthly) from the previous July 1981 level of $264.70. (b) $20 of monthly income from virtually any source (such as OASDI benefits not needs-tested income) is disregarded. In addition, the first $65 of monthly earned income plus one-half of remaining earnings are disregarded. Since July 1977, States which supplemented Federal SSI benefits have been required to pass through Federal SSI cost-of-living increases. A State could meet this requirement by either (1) maintaining the December 1976 level of State supplementation payment for recipients or (2) providing no less than the total aggregate amount of State supplementation paid by the State in the previous 12-month period. An amendment contained in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), allows a State that shifts from the aggregate spending option to the State supplementation payment level option to use the State supplementation payment level in the previous December rather than the level in December 1976. A State cannot decrease its State supplementation payment below the level in the previous December.

Commission Recommendation	Subcommittee Bill
(a) No recommendation.	(a) Delays the next Federal SSI cost-of-living adjustment (COLA) from July 1983 until January 1984, and maintains the current linkage between the OASDI and the SSI COLA adjustment. Federal SSI benefits will be adjusted in January 1984, and every January thereafter, by the same amount and under the same procedures as OASDI benefits.
(b) Increases the current $20 per month disregard to $50. The additional $30, however, will apply only to OASDI benefits received by the individual.	(b) Increases the Federal SSI benefit standard by $20 per month effective July 1, 1983. The amendment also makes necessary adjustments in the Federal SSI pass-through laws so that, with regard to the July 1983 $20 increase in the SSI standard, a State will be required to pass through no less—or will be required to do no less in compliance with the Federal pass-through laws—than would have been required if the SSI COLA had not been changed from July 1983 to January 1984.

TITLE V. MEDICARE HOSPITAL INSURANCE

Issue	Current Law
Summary	Basic medicare reasonable cost reimbursement was modified last year in P.L. 97-248 (TEFRA) to provide: (1) expanded "section 223" reimbursement limits applying to total (not only on routine) inpatient operating costs; and (2) new temporary growth rate targets (expiring after FY 1985) rising annually by one percentage point plus the increase in the "marketbasket" of goods and services purchased by hospitals. TEFRA also directed the Secretary of HHS to develop and report on a system of prospective payment for hospitals.
1. Prospective payment amount	Medicare payment amounts are retrospectively determined based upon a hospital's reasonable costs.
2. DRG national standard rates	Not applicable.
3. Regional wage adjustment	The Bureau of Labor Statistics adjustor for hospital wages is used under current Section 223 limits to adjust for regional differences in hospital wage levels.

Administration Proposal	Subcommittee Bill
Medicare payment for inpatient operating costs of hospitals would be determined in advance and made on a per case basis. A fixed amount would be paid for each type of case, identified by the "diagnosis related group" (DRG) into which the case is classified.	Similar to Administration proposal.
The Secretary would be required to determine prospectively a payment amount for each hospital discharge.	Same as Administration proposal.
Hospital cases (discharges) would be classified into "diagnosis related groups" (DRG's). There would be a separate payment amount for each of 467 DRG's.	
The Secretary would be required to determine a national standard rate per discharge for each DRG. The rate would be the product of:	There would be a separate urban and rural national standard rate per discharge for each DRG (instead of one national rate). These rates would be developed using separate urban and rural average cost per discharge figures.
	The Secretary would be directed to report to the Congress within two years following enactment on the feasibility and desirability of eliminating the separate urban and rural DRG calculations.
(1) an "appropriate standard cost level per discharge," as determined by the Secretary. (2) an "appropriate weighting factor" for each DRG as determined by the Secretary.	
The national average rate per discharge would be adjusted for regional differences in hospital wage levels using the same Bureau of Labor Statistics adjustor as current law.	Same as Administration proposal.

TITLE V. MEDICARE HOSPITAL INSURANCE—Continued

Issue	Current Law
4. Initial payment level	Not applicable.
5. Annual updates	Not applicable.
6. Recalibration	Not applicable.

Administration Proposal	Subcommittee Bill
The national standard rate for each DRG would be derived from historical medicare cost data.	Same as Administration proposal.
The rate would be updated to FY 1983 by the estimated industry-wide actual increase in hospital costs.	Same as Administration proposal.
The rate would be further updated to FY 1984 by the increase in the marketbasket of goods and services purchased by hospitals.	Same as Administration proposal except the Subcommittee bill would require an FY 1984 increase of marketbasket plus one percent for hospitals under the prospective payment system (and hospitals that will remain under the rate of increase provisions). However, the requirement that the bill be budget neutral could reduce the final increase allowance to a lower rate.
The Secretary would be required to update annually the payment amounts to a level which he or she determined would be adequate compensation for efficiently and economically operated hospitals, taking into account changes in the hospital marketbasket of goods and services, productivity, technological and scientific advances.	The bill would be amended to provide that, for fiscal years 1984 and 1985, payment amounts would be increased each year by the marketbasket, plus one. There would be an overall budget limitation to maintain budget neutrality. During fiscal year 1985, a panel of experts would be convened to review the update factor with respect to fiscal year 1986 and beyond, taking into account the marketbasket, productivity, technological and scientific advances, quality of care, and utilization of relatively costly, though effective, methods of care. The Secretary would be permitted to revise the annual update based upon the panel's recommendations.
The Secretary would be permitted to adjust payment amounts, from time to time, to take into account changes in DRG's, the proportion of costs attributable to wages, the types of costs subject to the system, regional differences in non-wage goods and services. Also, the Secretary would be authorized to establish payment amounts for new DRG's.	Same as Administration proposal.

TITLE V. MEDICARE HOSPITAL INSURANCE—Continued

Issue	Current Law
7. Atypical cases/Outliers	Not applicable.
8. Capital Expenses	Medicare reimburses hospitals for the reasonable costs of capital (including depreciation, interest and rent). In addition, proprietary hospitals receive a return on net equity.

Administration Proposal	Subcommittee Bill
The Secretary would be authorized to provide for additional payment amounts for cases which are extraordinarily costly to treat relative to other cases within the DRG. The proposal would allow the Secretary to provide additional payment amounts for any discharge whose length of stay exceeds by 30 or more days the mean length of stay of the discharges in the DRG to which the discharge belongs.	Same as Administration proposal, except that the Secretary would be required, rather than authorized, to provide for additional payment amounts. In addition, the Secretary would be authorized to provide additional payment amounts based upon other measures, as the Secretary determines to be appropriate.
It is the intention of the Administration to pay for days in excess of the 30 days at a per diem rate. A per diem rate would be calculated for each DRG by dividing the DRG payment amount by the mean length of stay for the DRG. The Administration proposes to reimburse 60% of that daily rate for each "outlier" day.	The Secretary would be required to study the appropriateness of the outliers policy, and to report to Congress on the results of this study.
The provision is intended to be budget neutral. Additional amounts reimbursed for the outlier days would reduce the DRG payment level across the board.	
Capital would continue to be reimbursed on a reasonable cost basis. In addition, the return on equity would continue to be paid as under the current system.	Same as Administration proposal.
The Secretary would be permitted to include in the propsective payment system, by regulation, at such time as he or she deemed appropriate, capital or other costs.	Capital would be specifically exlcuded from the prospective payment proposal. In addition, the Secretary would be required to study and report to Congress within 12 months of enactment, legislative recommendations for including capital-related costs under the prospective payment system (including recommendations regarding return on net equity).

TITLE V. MEDICARE HOSPITAL INSURANCE—Continued

Issue	Current Law
9. Medical Education Expenses	Medicare reimburses both direct and indirect medical education expenses on the basis of reasonable cost.
a. Direct Costs	
b. Indirect Costs	
10. Exemptions	Under TEFRA, Section 223 limits do not apply to children's hospitals, long-term care hospitals or to rural hospitals with less than 50 beds.
a. Psychiatric, long-term care and children's hospitals	
b. Sole community providers	

Administration Proposal	Subcommittee Bill
The bill does not expressly exclude direct or indirect medical education costs from the prospective payment amount.	
However, it is the intention of the Administration to reimburse direct medical education expenses, such as salaries of interns and residents in an approved education program, on the basis of cost. Under the bill, the Secretary would be authorized to include costs such as direct medical education costs under the prospective payment system when he or she deemed appropriate.	Direct medical education expenses would be required to be paid on the basis of cost.
It is the intention of the Administration that the prospective payment amount would be increased to take into account indirect education costs. As under current Section 223 limits, a "teaching adjustment" would be provided based upon the hospital's ratio of interns and residents to beds.	A teaching adjustment would be required which would be equal to twice the adjustment proposed by the Administration.
The proposal would not apply to psychiatric, long-term care and children's hospitals, however, the Secretary would be authorized to provide for prospective payment for such hospitals at some time in the future, by regulation.	The psychiatric, long-term care and children's hospitals would be specifically exempted. In addition, rehabilitation hospitals would be specifically exempted from the prospective payment proposal. Special provisions would be made for rehabilitation units of acute care hospitals.
The Secretary would be authorized to provide for exceptions and adjustments to take into account the special needs of sole community providers.	Same as Administration proposal.
Hospitals that are not included in the prospective payment proposal would be subject to the rate of increase provision similar to TEFRA, including the incentive payments, except that for hospital cost reporting periods ending before October 1, 1984, the rate of increase will be limited to marketbasket only.	Same as the Administration proposal, except that for hospital cost reporting periods ending before October 1, 1984, the rate of increase will be limited to marketbasket plus one percentage point.
For hospital cost reporting periods beginning after September 30, 1984, the rate of increase would be marketbasket plus one percentage point.	

TITLE V. MEDICARE HOSPITAL INSURANCE—Continued

Issue	Current Law
10. Exemptions—Con.	
c. Public and other hospitals	
d. Other providers	
e. Study provision	
11. Admissions and Quality Review	Current law requires the Secretary to enter into contracts for utilization and quality control peer review with professional review organizations or other review organizations, including medicare intermediaries (subject to certain conditions and limitations).

Administration Proposal	Subcommittee Bill
No provision.	The Secretary would be required to take into account and make appropriate exemptions, exceptions and adjustments for hospitals that serve a disproportionately large number of low income and medicare beneficiaries.
No provision.	The Secretary would be authorized to provide, by regulation, for such exceptions and adjustments as he or she deems appropriate (including those that may be appropriate with respect to public and teaching hospitals).
No provision.	The Secretary would be required to report to Congress, within two years after enactment, on whether exempted hospitals should be brought under the prospective payment system and, if so, how this should be accomplished.
	The Secretary would be required to establish an admissions and discharges monitoring system utilizing HCFA, medicare intermediaries, professional standards review organizations/professional review organizations, or such other medical review authority as the Secretary may provide, to review admissions and discharge practices and quality of care.
	The Secretary would be authorized to take corrective action where a provider was determined to be engaged in aberrant or unacceptable practices. The Secretary would be permitted to disallow part or all of the medicare payment or to terminate program participation where a provider was determined to have engaged in such practices relating to admissions, length of stays, quality of care or to "unbundling."
	As a condition for receipt of medicare payments, a hospital would be required to contract with a review organization, in the area, designated by the Secretary under Title XI (established under TEFRA), for the review of admissions, discharges, and quality of care.

TITLE V. MEDICARE HOSPITAL INSURANCE—Continued

Issue	Current Law
12. Payments to HMO's and CMP's	Current law provides that HMO's and CMP's may be reimbursed either on the basis of costs, or under a risk-based contract, a payment equal to 95% of the adjusted average per capita cost (AAPCC) for medicare enrollees, in the HMO's area.
13. Effective Date/Transition	Not applicable.
14. Payors covered	Medicare reimbursement applies only to the program itself (although some medicaid programs follow medicare).

Administration Proposal	Subcommittee bill
The proposal would permit, at its election, an HMO or a CMP that receives medicare payments on a risk-basis to choose to have the Secretary directly pay hospitals for inpatient hospital services furnished to medicare enrollees of the HMO or CMP. The payment amount would be at the DRG rate (or on the basis of reasonable cost, as applicable) and would be deducted from medicare payments to the HMO or CMP.	Same as Administration proposal.
The proposal would be effective with individual hospital accounting years beginning on or after October 1, 1983. No other transitional arrangements are specified.	Effective date as in Administration proposal, except that a transition provision would phase-in the new system over a two-year period. In year one, payment would be determined as follows: a. 50 percent of the payment amount would be determined based on the new DRG prospective system. b. 50 percent of the payment amount would be determined on the hospital's own cost base, that is, the per discharge amount represented by the growth rate target under TEFRA (but this amount could not exceed the hospital's "Section 223" limit).
Same as present law.	Same as Administration proposal.

Issue	Current Law
15. State Cost Control Systems	The Secretary of HHS has authority to establish medicare demonstration projects. There are currently four State-wide medicare demonstrations (MD, NJ, NY and MA) and one area-wide (Rochester, NY). In addition, TEFRA authorizes the Secretary, at the request of a State, to pay under a hospital cost control system in the State if the system— (1) applies to substantially all non-Federal hospitals; (2) applies to at least 75% of inpatient revenues; (3) treats payors, employees and patients equitably; and (4) will not result in greater medicare expenditures over a three-year period than would otherwise have been made. (To date, no State systems have been approved under this authority.)
16. Administrative and Judicial review	A provider may request administrative review of a final decision of fiscal intermediary by the Provider Reimbursement Review Board (PRRB). A provider may appeal the PRRB decision to Federal court or, where it involves a question of law or regulation which the PRRB does not have the authority to review, the provider may appeal directly to Federal court.

Administration Proposal	Subcommittee Bill
The Secretary would be expressly authorized to continue to develop, carry out, or maintain medicare experiments and demonstration projects.	Same as Administration proposal.
The authority under TEFRA would be repealed.	In addition, as under TEFRA, the Secretary would be authorized to make medicare payments under a State system if the four conditions set out in TEFRA were met. The Secretary would be prohibited from requiring that a State system be based on DRG's or that the State's rate of increase in hospital costs be less than the rate of increase in the U.S. For those States which currently have a medicare waiver, the Secretary would be required to continue the State program if, and for so long as, the four conditions were met. The Secretary would be required to approve within 60 days any other State program which met the following additional requirements: that the system (1) is operated directly by the State or an entity designated by law; (2) is prospective; (3) provides for hospitals to make such reports as the Secretary requires; (4) will not result in admissions practices which will reduce treatment to low income, high cost, or emergency patients; and (5) will not reduce payments without 60 days notice to the Secretary and to hospitals. In the development of its program, a State would be required to consult with local officials with respect to the impact of the program on publicly owned hospitals.
No provision with respect to administrative review.	The bill would be amended to permit administrative and judicial review in all cases except the narrow items necessary to maintain budget neutrality: (1) the level of the payment amount, and (2) the establishment of the DRG classifications. Thus, the limitation on review would apply only to the decision of the Secretary whether to establish the payment amount at, for example, 102% or 105% of the mean in order to maintain the budget neutrality of the system and to the classification of any medical diagnosis as a part of a group of related diagnoses.
With respect to judicial review, payment amounts, exceptions, adjustments and rules established by Secretary would not be appealable.	

TITLE V. MEDICARE HOSPITAL INSURANCE—Continued

Issue	Current Law
17. Beneficiary Hospital Inpatient Deductible and Coinsurance	Medicare pays all reasonable expenses for the first 60 days of inpatient hospital care minus a deductible ($304 in 1983) in each benefit period. For days 61-90, a coinsurance amount ($76 in 1983) is also deducted.
18. Studies and reports	Not applicable.
19. Research on payment methods	There is general authority for the Secretary to conduct research on payment methods and other matters relating to medicare.

Administration Proposal	Subcommittee Bill
Hospitals would be prohibited from charging beneficiaries amounts in excess of the statutory deductible and coinsurance. The prospective payment would be considered payment in full	Same as Administration proposal.
No provision.	The Secretary would be required to: 1. Analyze the impact of the prospective payment plan in operation and to report 12 and 24 months after enactment with any appropriate legislative recommendations. GAO would review the adequacy of the analysis by the Secretary. 2. Study and report on the impact of prospective payment plan on payors other than medicare and on the feasibility and desirability of including other payors. 3. Study and report on practical methods of using public disclosure of DRG rates (once capital costs have been included) to enable consumers and others to make useful price comparisons among hospitals.
No provision.	*In committee report,* intent would be expressed that the Secretary: 1. Conduct a major continuing research program on issues related to medicare program costs and payment methods. Independent multidisciplinary research should be carried out, possibly through long-term research contracts with two or three university-based applied research centers. 2. Conduct research on the feasibility and desirability of arrangements under which hospitals woud be permitted to charge beneficiaries more (or less than) the medicare prospective payment amount.

TITLE VI. UNEMPLOYMENT COMPENSATION PROVISIONS

Issue	Current Law
1. Extension of Federal supplemental compensation (FSC) program	Under the current FSC program, which became effective on September 12, 1982, and expires March 31, 1983, additional weeks of Federally financed unemployment compensation benefits are provided to jobless workers who have exhausted all other State and Federal unemployment benefits. The number of weeks of FSC benefits that jobless workers may receive depends on (a) the number of weeks of State unemployment benefits received by each claimant, and (b) the State in which the claimant lives. As originally enacted, the FSC program provided, depending upon insured unemployment rates (IUR),[1] a maximum of 10, 8, or 6 additional weeks of benefits. As amended by provisions contained in the Surface Transportation Assistance Act of 1982 (P.L. 97-424), beginning with the week of January 9, 1983, the FSC program provides the following maximum weeks of benefits: (1) 16 weeks in States with an insured unemployment rate (IUR) exceeding 6.0 percent; (2) 14 weeks in States that were triggered on the extended benefits program between June 1, 1982 and January 6, 1983; (3) 12 weeks in the remaining States that have an IUR of at least 4.5 percent; (4) 10 weeks in the remaining States that have an IUR between 3.5 percent and 4.5 and; (5) 8 weeks for all other States. The number of weeks of FSC any qualified individual may receive is the lesser of 65 percent of the number of weeks of regular State benefits provided in the State where he qualified for the benefits or the maximum number of weeks of FSC payable in his State.
2. Option for Voluntary Health Insurance Program	Section 3304(a)(4) of the Federal Unemployment Tax Act prohibits States from withdrawing money from the State unemployment trust fund for anything except the payment of unemployment compensation benefits or to refund certain taxes erroneously paid by employers.

1. Insured Unemployment Rate (IUR): the percentage of workers covered under the State law who are drawing unemployment benefits, measured as the average over a moving 13 week period.

Subcommittee Bill

Extends program for 6 months, from April 1, 1983 through September 30, 1983.

Effective April 1, 1983, FSC benefits would be payable as follows:

(a) Individuals who begin receiving FSC on or after April 1, 1983 could receive up to a maximum of:

16 weeks in States with IUR 6.0 or above
14 weeks in States with IUR 5.0 to 5.9
12 weeks in States with IUR 4.5 to 4.9
10 weeks in States with IUR 3.5 to 4.4
8 weeks in all other States

(b) Individuals who exhaust FSC on or before April 1, 1983 could receive additional weeks equal to two-thirds of their former FSC entitlement, up to maximum of:

10 weeks in 16 week States
8 weeks in 14 and 12 week States
6 weeks in 10 and 8 week States

(c) Individuals who begin receiving FSC before April 1, and have some FSC entitlement remaining after that date, could not receive more weeks of FSC after April 1 than an individual who was eligible for the same number of weeks of regular State benefits and who first begins receiving FSC after April 1. This means that individuals who begin receiving FSC before April 1 and have FSC entitlement remaing after that date could receive, depending upon the number of weeks drawn prior to April 1, up to a maximum of:

11 to 16 weeks in the 16 week States
9 to 14 weeks in the 14 weeks States
9 to 12 weeks in the 12 week States
7 to 10 weeks in the 10 week States
7 to 8 weeks in the 8 week States

Provides States the option of deducting an amount from the unemployment compensation benefits otherwise payable to an individual and using the amount deducted to pay for health insurance, if the individual elects to have such a deduction made from his benefits.

Issue	Current Law
3. Treatment of Certain Organizations Who Were Retroactively Granted 501(c)(3) Status	Nonprofit organizations have the option of financing unemployment benefits paid to their former employees through the State unemployment payroll tax system that applies to private employers (contribution method) or by retroactively reimbursing the State trust fund for the amount of benefits paid to their former employees (reimbursement method). Unemployment insurance coverage was extended to employees of certain nonprofit organizations in 1970 and then extended to employees of all nonprofit organizations in 1976. Nonprofit employers who had voluntarily covered their employees prior to the 1970 or 1976 amendments and financed benefit costs by the contribution method, and after enactment of the 1970 or 1976 amendments chose to switch to the reimbursement method of financing, were permitted to apply any accumulated balance in their accounts toward costs incurred in the future and paid for on a reimbursement basis. The authority to make such a transfer, however, was available for a limited period of time that expired shortly after enactment of the 1976 and 1970 amendments.
4. Extension of Exclusion from FUTA of Wages Paid to Certain Alien Farmworkers	Under current law, Federal Unemployment Tax (FUTA) is imposed on farm operators who employ 10 or more agricultural workers in 20 weeks, or have a quarterly payroll for agricultural services of at least $20,000. The Federal tax is currently 0.8 percent on the first $7,000 of annual wages. A temporary provision in Federal law excludes from FUTA wages paid to alien farmworkers admitted to the United States pursuant to sections 214(c) and 101(a)(15)(H)(ii) of the Immigration and Nationality Act. The present exemption from FUTA expires on January 1, 1984. Sections 214(c) and 101(a)(15)(H) of the Immigration and Nationality Act pertain to residents of foreign countries who do not intend to abandon such residency and who are admitted to the United States to work for a temporary period of time during peak agricultural crop seasons. They are admitted only after the Secretary of Labor has determined and certified to the Secretary of State and to the Attorney General that there are not sufficient workers in the United States who are available to do the specific work the non-resident workers are admitted to perform.

Subcommittee Bill

Allows a nonprofit organization that elects to switch from the contribution to the reimbursement method of financing unemployment benefits to apply any accumulated balance in its State unemployment account to costs incurred after it switches to the reimbursement method under the following conditions:

(1) the organization did not elect to switch to reimbursement method under prior authority because during these periods the organization was treated as a 501(c)(4) organization by the IRS, but the organization has been subsequently determined by IRS to be a 501(c)(3) organization; and,

(2) the organization elects to switch to the reimbursement method before the earlier of 18 months after such election was first available to it under State law or January 1, 1984.

Extends for 2 years—from January 1, 1984 to January 1, 1986—the temporary exclusion in present law that exempts employers from paying Federal unemployment taxes on wages paid to certain alien farmworkers.

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