C. SOCIAL SECURITY

23. Raise the Normal Retirement Age and retain the Early Retirement Age at 62

CURRENT LAW

The Normal Retirement Age (NRA) refers to the age at which a worker may retire with full Social Security benefits. Currently, the NRA is set at age 65. Under the 1983 Social Security amendments, the NRA will gradually rise at a rate of two months per year beginning for people currently age 56 (*e.g.*, the NRA will be 65 and two months for persons age 56 and 65 and four months for those age 55). The NRA will reach age 66 for persons age 51 today and will remain at age 66 for 12 years. It will then begin to rise again by two-month increments starting with persons now age 39, until it reaches age 67 for persons under age 35.

Workers who retire and collect benefits before reaching the NRA take a permanent reduction in benefits. Workers retiring at age 62 today (the current early retirement age) receive 80 percent of the full benefit. Benefits for workers retiring at age 62 are scheduled to decrease gradually to 70 percent of full benefits as the NRA increases to age 67.

OPTIONS

(a) Accelerate the currently scheduled NRA increase so the NRA reaches age 67 for persons under age 46 instead of under age 35. This option would accelerate the date the NRA reaches age 67 by eliminating the 12-year plateau during which the NRA remains set at age 66. Instead of pausing at age 66, the NRA will continue rising by two-month increments until it reaches age 67 for persons under age 46. The Early Retirement Age would remain the same.

Elimination of the 12-year plateau will affect no one currently over the age of 50. This option applies higher retirement ages more equitably to members of the Baby Boom generation. This provision was included in H.R. 4245, introduced by Congressman Rostenkowski.

(b) Accelerate the currently scheduled NRA increase to age 67 and further increase the NRA to age 68 for persons under age 40. This option would accelerate the date the NRA reaches age 67 by eliminating the 12-year plateau during which the NRA remains at age 66. It would also extend the period over which the NRA rises by two-month increments, starting for persons currently age 44, until the NRA reaches age 68 for those persons under age 40. No one currently over the age of 50 would be affected. This option changes the retirement age to more fully reflect the improvements in U.S. life expectancy that have occurred during the period from the program's inception through 1990 (life expectancy at age 65 has grown by 2.6 years for men and 4.9 years for women). It does not reflect projected future lifespan increases.

The Early Retirement Age would remain the same. Benefits for workers retiring at age 62 would, however, decrease gradually to 65.5 percent of the full benefit when the NRA reaches age 68.

(c) Accelerate the currently scheduled NRA increase to age 67 and further increase the NRA to age 70 for persons under age 28. This option would accelerate the date the NRA reaches age 67 by eliminating the 12-year plateau during which the NRA will remain at 66. This option would, in addition, continue to raise the NRA by two-month increments until it reaches age 70 for those persons under age 28. No one currently over the age of 50 would be affected. This option reflects the expected increase in life expectancy from the program's inception to 2022.

The Early Retirement Age would remain the same. Benefits for workers retiring at age 62 would, however, decrease gradually to 60 percent of the full benefit when the NRA reaches age 70. Greater benefit reductions for persons retiring before the NRA will necessarily affect the standard of living of workers forced to retire before the NRA. This provision was included in H.R. 4275, introduced by Congressman Pickle.

(d) Index the NRA to growth in average life expectancy. This option would require the Social Security Administration (SSA) to adjust the NRA for future increases in U.S. life expectancy at age 65. The base year used to calculate changes in life expectancy is 1980. This option would take effect for persons under age 35 for whom the NRA is 67 under current law. The NRA adjustments would be determined 20 years before they are effective.

Beginning in 2000, the SSA would project life expectancy at age 65 biennially for persons reaching the NRA 20 years in the future. SSA would then adjust the NRA to maintain a constant period during which a retiree would receive Social Security benefits. Using current projections, the NRA would increase gradually to 68 for persons age 12 today, and to 69 for persons born in 2008. This proposal would affect no one over age 34. It would fully address the projected increases in life expectancy after 1980.

The Early Retirement Age would remain the same. The reduction in benefits imposed for early retirement would gradually be increased as the NRA rises.

EFFECT

These options would improve the actuarial balance of the Social Security Trust Funds by 0.12 percent, 0.52 percent, 1.02 percent, and 0.19 percent, respectively.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Outlay savings	*	0.03%	0.17%	0.10%
b. Outlay savings	*	0.03%	0.31%	0.34%
c. Outlay savings	*	0.03%	0.27%	0.55%
d. Outlay savings	*	*	*	0.02%

24. Make the "primary insurance amount" formula more progressive by adding a third bend point

CURRENT LAW

Two calculations are used to determine the amount of a worker's initial Social Security benefit. First, an average monthly earnings amount is calculated from the earnings record. All monthly wages from past years are indexed for the change in average wages that has occurred since the year in which the wages were earned (indexed to age 60). These amounts are then averaged together, with any wages for age 60 and after, to produce the average indexed monthly earnings (AIME).

Second, the primary insurance amount (PIA) is calculated. A progressive formula is applied to the AIME to determine the PIA. The PIA is the basic monthly benefit payable to a worker retiring at the Normal Retirement Age (NRA). If a worker retires at a later age, the PIA amount is increased; if the worker retires at a younger age, it is reduced. For a worker becoming eligible in 1994, the PIA formula is the total of —

- 90 percent of the first $422 of AIME;
- 32 percent of the next $2,123 (the amount between $422 and $2,545) of AIME; and
- 15 percent of AIME above $2,564.

The dollar amounts at which the percentage rates in this formula change (*e.g.*, from 32 to 15 percent) are called "bend points." The bend points used for each successive cohort are increased annually by the growth in average wages. The percentage rates in the PIA formula (*i.e.*, 90 percent, 32 percent and 15 percent), known as replacement rates, do not change.

OPTION

This option would modify the benefit formula over a 50-year period beginning in 2000, gradually reducing the growth in benefits paid to workers with average and above-average earnings. Specifically, the option would add a third bend point above the point (where the current 15 percent bracket begins). It would then apply a 10 percent rate to the extent AIME exceeds the new bend point. Over 50 years, the option completely replaces the current 15 percent bracket with a 10 percent bracket and partially replaces the 32 percent bracket with the 15 percent bracket.

No person age 54 or older would be affected by the option and, in the first two decades after it takes effect, the impact would be minimal. This option reduces benefits for higher-wage workers and provides a more progressive benefit formula than under current law. It helps to address the long-term Social Security balance by limiting benefit growth to persons with the highest benefits, shielding low-wage workers from benefit reductions. It was included in H.R. 4245, introduced by Congressman Rostenkowski.

EFFECT

The option would improve the actuarial balance of the Social Security Trust Funds by 0.61 percent, or almost one-third of the overall actuarial imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings	—	0.03%	0.14%	0.27%

25. Limit Social Security cost-of-living adjustments (COLAs)

CURRENT LAW

A retiree's monthly benefit amount is automatically increased annually for changes in the cost of living based on the Consumer Price Index (CPI).

OPTIONS

(a) Limit COLAs to the adjustment for the Social Security beneficiary in the 20th percentile of benefits. Beginning in 1998, this option would limit the cost-of-living adjustment for Social Security beneficiaries whose benefits are above the 20th percentile of retirement benefits paid. Beneficiaries below the 20th percentile would receive the full COLA. Beneficiaries above the 20th percentile would receive a flat dollar amount equal to the COLA due beneficiaries at the 20th percentile. At the end of 1993, beneficiaries at the 20th percentile received retirement benefits of about $420 a month. The option limits COLAs, which were not an original feature of Social Security, but shields the lowest paid recipients. It is similar to H.R. 4373, introduced by Congressman Penny.

(b) Limit COLAs to the adjustment for the median beneficiary. This option is similar to Option (a) except that the COLA would be limited to the adjustment received by the median recipient of Social Security retirement benefits. At the end of 1993, the median beneficiary received retirement benefits of about $680 monthly.

These options take effect on January 1, 1998.

EFFECT

This option would improve the actuarial balance of the Social Security Trust Funds by 1.85 percent, compared with an overall actuarial imbalance of 2.13 percent. The effect of Option (b) has not been estimated.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Outlay savings	0.15%	0.48%	0.69%	0.88%
b. Outlay savings	Outlay estimates are not available for this option.			

26. Provide a personal investment plan option for all workers in lieu of 1.5 percentage points of the payroll tax

CURRENT LAW

Social Security (OASDI) is financed through a payroll tax authorized by the Federal Insurance Contributions Act (FICA). Under FICA, employees and employers pay taxes at equal rates on wages up to $60,600 in 1994. The employer and employee tax rates are both 6.2 percent, for a combined rate of 12.4 percent. Currently, the maximum employee share of OASDI taxes is $3,757 and the average employee's share is about $1,854.

Current law does not permit workers to divert any portion of their Social Security payroll taxes to a retirement plan other than Social Security.

OPTION

This option permits current workers under age 55 to reduce their Social Security payroll taxes, make mandatory contributions to their own personal retirement account, and receive lower Social Security benefits in retirement. The Social Security payroll tax reduction and mandatory contribution to the personal account would be 1.5 percentage points of wages (under the Social Security maximum wage cap). This would decrease the employee share of Social Security payroll taxes from 6.2 percent to 4.7 percent. The employer share would not be changed.

Once a worker chooses the personal investment plan option, the decision would be irrevocable. The reduced Social Security benefits depend on the age at which the worker makes the election. For example, the benefit formula for a person age 25 making the election would be the sum of—

- 90 percent of the first $422 of average indexed monthly earnings (AIME) (the same percentage as the current formula);
- 19 percent of the next $2,132 of AIME (compared with 32 percent in the current formula); and
- 2 percent of AIME above $2,564 (compared with 15 percent in the current formula).

Smaller reductions in the benefit formula percentages would apply for persons making the election after age 25.

Under the alternative benefit formulas, Social Security benefits (excluding funds in the personal investment account) for the lowest wage workers would not be reduced. Low-wage persons would still receive benefits calculated using 90 percent for the first bracket of the primary insurance amount (PIA) formula. In addition, Social Security benefits would still provide a safety net exceeding the poverty level for workers at average and above-average wage levels.

While an individual's contribution to the personal account would not be deductible for income tax purposes, earnings on the account would only be taxed upon withdrawal. This tax treatment is similar to the treatment of contributions to Social Security. The account would be subject to the same restrictions as individual retirement accounts (IRAs) under current law, with the exception that withdrawal would be allowed only upon disability or retirement.

EFFECT

The impact of the option depends upon the number of persons choosing to reduce their payroll tax contributions and accept lower Social Security benefits in the future. The reduced benefit formula is calculated so that the Social Security Trust Funds' balance would be improved when upper- and average-wage earners choose the personal investment option. As a result, significant improvements in their actuarial balance could occur if large numbers of upper- and average-wage earners chose the option. The option reduces revenues immediately from workers who choose the personal investment plan option and pay lower payroll taxes; it will reduce outlays when those workers begin to receive lower Social Security payments upon retirement.

The effect of implementing this option has not been estimated.

27. Modify spousal benefits

CURRENT LAW

Spousal benefits are monthly benefits payable to a spouse or divorced spouse of a retired worker. They can equal up to 50 percent of the retired worker's full benefit (PIA). Spousal benefits are generally paid if—

- A currently married spouse is age 62 or older;
- A currently married spouse is caring for one or more of the worker's entitled children who are disabled or have not reached age 16; or
- A divorced spouse aged 62 or older is not married and the marriage to the worker had lasted 10 years before the divorce became final.

This spousal benefit is payable only if it is larger than the retirement benefit, which is based on the spouse's own earnings record.

OPTIONS

(a) Reduce the basic spouse benefit from 50 percent to 33 percent of the PIA. This option would gradually reduce the Social Security spousal benefits for new beneficiaries from a maximum of 50 percent to a maximum of 33 percent of PIA. The reduction would start in 2000 and would be 1 percent per year. It does not apply to survivor benefits (and therefore, does not affect widows) or benefits resulting from a spouse's own earnings. This option was included in H.R. 4275, introduced by Congressman Pickle.

(b) Limit the spouse benefit to 50 percent of the median retiree's benefits. This option would limit spousal benefits to 50 percent of median retiree's benefits. As a result, the spouses of retirees receiving median Social Security benefits would be unaffected. The spouses of retirees receiving benefits above the median would be limited to 50 percent of the median retiree benefit. The median retiree benefit would be based on the year in which benefits are awarded. The option would be phased in over five years, starting with new beneficiaries after January 1, 2000. It would not apply to survivor benefits or benefits resulting from a spouse's own earnings. The option would reduce the relatively high returns on payroll taxes received by high-wage, one-earner couples.

These options would reduce the disparity between the return on contributions for two-earner households (or individuals) and one-earner households with equal incomes. Under the option, more spouses (primarily women) would qualify for Social Security benefits based on their own work history, rather than a spousal benefit.

EFFECT

Option (a) would improve the actuarial balance of the Social Security Trust Funds by 0.17 percent, compared with an overall imbalance of 2.13 percent. The effect of implementing Option (b) has not been estimated.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Outlay savings	*	0.02%	0.06%	0.10%
b. Outlay savings	Outlay estimates are not available for this option.			

28. Index the benefit formula using the Consumer Price Index (CPI)

CURRENT LAW

Two calculations are used to determine the amount of a worker's initial Social Security benefit. First, an average monthly earnings amount is calculated from the earnings record. All monthly wages from past years are indexed for the change in average wages that has occurred since the year in which the wages were earned (indexed to age 60). These amounts are then averaged together, with any wages for age 60 and after, to produce the average indexed monthly earnings (AIME).

Second, the primary insurance amount (PIA) is calculated. A progressive formula is applied to the AIME to determine the PIA. The PIA is the basic monthly benefit payable to a worker retiring at the Normal Retirement Age (NRA). If a worker retires at a later age, the PIA amount is increased; if the worker retires at a younger age, it is reduced. The PIA formula for a worker becoming eligible in 1994 is the total of —

- 90 percent of the first $422 of AIME;
- 32 percent of the next $2,123 (the amount between $422 and $2,545) of AIME; and
- 15 percent of AIME above $2,564.

The dollar amounts at which the percentage rates in this formula change (*e.g.*, from 32 to 15 percent) are called "bend points." The bend points used for each successive cohort are increased annually by the growth in average wages. The percentage rates in the PIA formula (*i.e.*, 90 percent, 32 percent, and 15 percent) do not change.

OPTIONS

(a) Use the CPI to index wage history and bend points. This option would adjust a worker's past wages and the bend points for inflation, as measured by the CPI, instead of indexing for average wage growth. This option would reduce the full benefit amount (PIA) if wages grow faster than inflation. The Social Security Administration, for example, assumes that long-term average wages will grow 1 percent faster than inflation in its intermediate projections for the Social Security Trust Funds.

This option would take effect for new Social Security recipients in 2000; its impact within the first 10 years would be relatively small (1 percent for the first group affected, and growing to 10 percent for those becoming eligible in 2010). Under the option, benefits for the average worker would continue to rise faster than inflation, but not as rapidly as under current law and not as fast as average wages. The option has a greater impact on persons whose earnings peak in their early working years (under current law, they get the most benefit of indexing their historical wages for average wage increases) compared with persons who work steadily and have progressively higher earnings throughout their lives.

(b) Use the CPI to index only the bend points. This option would index the bend points for inflation, as measured by the CPI, instead of adjusting them for average wage growth. It would reduce the full benefit amount (PIA) if wages grow faster than inflation. The Social Security Administration assumes that long-term average wages will grow 1 percent faster than inflation in its intermediate projections for the Social Security Trust Funds.

This option would take effect for new Social Security recipients in 2000. Benefits for the average worker would continue to rise faster than inflation, but not as rapidly as under current law and not as fast as average wages. By continuing to index past earnings for wage increases, the option has a smaller impact on benefits than Option (a) and maintains assistance to persons whose earnings peak early in life.

Each option could be modified to index using the lower of the CPI and the growth in average wages.

EFFECT

The effect of implementing Option (a) has not been estimated. Option (b) would improve the actuarial balance of the Social Security Trust Funds by 1.54 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Outlay savings	Outlay estimates are not available for this option.			
b. Outlay savings	*	0.13%	0.38%	0.66%

29. Expand Social Security (OASDI) coverage to include all State and local government employees

CURRENT LAW

Social Security coverage and contributions are not mandatory for State and local government employees, as they are for most workers in the economy. Instead, State and local governments may provide retirement coverage for their workers using a public employee program, the Social Security system, or a plan that integrates the two.

As a result, some State and local government workers do not pay Social Security taxes, are not covered under Social Security, and do not receive Social Security benefits. Those workers receive a State or local government pension.

OPTION

This option would require Social Security coverage for and contributions by State and local government workers. It would apply, starting in 2000, for new workers and those with five or fewer years of service. Social Security coverage would become nearly universal with this option because this is the last major segment of the workforce to have the ability to exclude itself from coverage.

EFFECT

This option raises government revenues in the short term from additional payroll tax receipts. In the long run, higher Social Security benefits would offset the added revenue. The option would improve the actuarial balance of the Social Security Trust Funds by 0.14 percent, compared with an overall actuarial imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings	*	*	*	- 0.04%
Revenue increases	*	0.08%	0.13%	0.16%

30. Disability program reforms

CURRENT LAW

Disability Insurance (DI) provides monthly payments to disabled workers under age 65 and their dependents. As of December 31, 1993, the DI program had 5.3 million recipients (3.7 million disabled, the remainder dependents), a 24 percent increase since 1990. To be eligible for DI benefits, a worker must be disabled and must have worked in employment covered by Social Security for a certain period of time. A person is disabled if he or she is unable to engage in any substantial gainful activity by reason of a medically determined physical impairment expected to result in death or to last at least 12 months.

The Supplemental Security Income program (SSI) program provides cash assistance to low-income aged, blind, and disabled persons. As of June 1993, there were about 6 million SSI recipients. The maximum SSI benefit in 1994 is $446 for an individual and $669 for a couple. SSI is restricted to persons who have assets (excluding items such as an individual's home, and property used for trade or business) not exceeding $2,000 for individuals and $3,000 for couples. To qualify for SSI payments as a disabled person, the person must be unable to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment expected to result in death or that has lasted or can be expected to last for a continuous period of at least 12 months. A child under age 18 is disabled if he or she has an impairment of comparable severity to an adult. Under current law, children may receive SSI disability payments and may also receive disability-related goods and services provided by State and local special education programs or State Medicaid programs. A 1990 judicial decision, (Sullivan v. Zebley) significantly increased the number of children participating in SSI.

Current law requires that the Social Security Administration reexamine each individual who is receiving benefits and is not permanently disabled every three years. From 1990 to 1993, less than 50,000 reexaminations were done annually (and benefits terminated for less than 7,000 persons each year). If current law were followed, SSA would be conducting 500,000 annual disability reviews. For the 2.9 million disabled recipients who receive only SSI payments, only a small number of reviews are conducted.

OPTIONS

(a) Increase resources to conduct more disability reviews by the Social Security Administration. This option is intended to improve the operations of the SSA's disability programs, particularly efforts to implement the continuing disability review (CDR) of DI and SSI recipients required under current law, including the monitoring of substance abusers. By Office of Management and Budget (OMB) interpretation, Social Security administrative costs are treated as discretionary spending under the Budget Enforcement Act of 1990. Increased resources for more disability reviews could be provided either through a reallocation of resources from other annually appropriated programs included under the discretionary cap or by removing Social Security administrative expenses from the discretionary budget cap, reducing the budget cap accordingly.

(b) Phase out SSI cash payments to children and replace them with vouchers for disability-related goods or services. Under this option, new recipients under age 18 will not receive cash payments after 2000. Vouchers will be provided in their place, equal to a value no greater than the maximum monthly cash SSI payment ($458 in 1995 dollars). For existing recipients, cash payments will be reduced gradually beginning in 2000, until phased out in 2004. Vouchers will replace the amount of the forgone cash payments.

(c) Replace DI and SSI payments with treatment vouchers for persons with disabilities caused primarily by substance abuse. This option would gradually eliminate cash payments for substance abusers receiving DI and SSI payments by 2004. Beginning in 2000, new recipients whose disability is primarily due to addiction to alcohol or drugs would receive vouchers rather than cash payments. Payments to State-approved alcohol or drug treatment facilities would be made by the SSA until: 1) rehabilitation is completed; 2) treatment is terminated; or 3) treatment is determined to be ineffective. These vouchers will not exceed three years, the same limit as applied to cash payments under current law.

(d) Adjust the level of benefits paid under the DI program to offset incentives for early retirees to file for disability status. Under current law, a worker retiring today at age 62 collects 80 percent of the full benefit, while a worker determined to be disabled at age 62 will collect 100 percent of the full benefit. As a result, there is a large financial incentive for early retirees to file for both DI and Social Security retirement benefits. This incentive increases as the Normal Retirement Age (NRA) increases from age 65 to 67 as scheduled under current law (*e.g.*, a worker retiring at age 62 in 2022 will collect 70 percent of the full benefit, while a worker determined to be disabled at age 62 will collect 100 percent of the full benefit). This option would diminish the incentive by reducing higher benefits paid for disability compared to retirement benefits. Beginning in 2000 (when the age for full Social Security retirement benefits begins to rise under current law), the option would link the basic DI benefit levels annually to the benefits for a worker retiring at age 65 in that year. For example, in 2008 when a retiree age 65 must take a 5 percent reduction in benefits, the basic DI benefit for someone becoming disabled in that year would be reduced by 5 percent. The option was included in H.R. 4275, introduced by Congressman Pickle. This option could apply under all the options that raise the NRA.

EFFECT

Outlay saving effects of Options (a), (b), and (c) are less than 0.02 percent of GDP. Option (d) would improve the actuarial balance of the Social Security Trust Funds by 0.22 percent, compared with an overall imbalance of 2.13 percent.

31. Modify the taxation of Social Security benefits

CURRENT LAW

Recipients with incomes above $25,000 ($32,000 for couples) must include a portion of their Social Security benefits in taxable income — either 50 percent of their benefits or 50 percent of their income over the income thresholds, whichever is lower. Recipients with incomes above $34,000 ($44,000 for couples) must include up to 85 percent of their benefits in their taxable income. For these purposes, "income" is defined as Adjusted Gross Income (AGI), plus tax-exempt bond interest, plus 50 percent of Social Security benefits. The thresholds are not indexed for inflation.

Under current law, pension income is taxable except for the share of total lifetime benefits (based on projected life expectancy) attributed to employee contributions. Upon retirement, the employer calculates an "exclusion ratio" that determines how much of the retiree's pension will be subject to tax. The exclusion ratio is defined as the ratio of the employee's contributions made from taxable income to expected total benefits over the retiree's expected remaining lifetime. This tax treatment for pension benefits is the same as the tax treatment of annuities under current law.

OPTIONS

The following list of options would be phased in over five years starting in 2000.

(a) Tax 85 percent of benefits for taxpayers with incomes above $25,000 ($32,000 for couples). This option would increase the portion of Social Security benefits included in AGI from 50 percent to 85 percent for all recipients with incomes above $25,000 ($32,000 for couples). Except for the effective date, this option is the same as a measure included in H.R. 4245, introduced by Congressman Rostenkowski. While not identical to the tax treatment of private and public pensions, this option would move the tax treatment of Social Security closer to that of other retirement income.

(b) Tax 85 percent of benefits for all taxpayers. This option would eliminate the income thresholds entirely and require that all recipients include 85 percent of Social Security benefits in AGI. It would increase the percentage of senior households that pay tax on their benefits.

(c) Tax benefits like private pension income. This option would tax Social Security benefits in the same manner as private and public pensions. The Social Security Administration (SSA) would calculate an exclusion ratio for each beneficiary using the same rules followed by a private employer. The SSA recently calculated that average lifetime Social Security contributions paid by all workers entering the work force in 1989 (who will retire between 2025 and 2030) will approach 7 percent of their expected average

Social Security income. The SSA's figures estimate that, if Social Security were taxed in the same way as private pensions, an average of 93 percent of all recipients' Social Security benefits would, in the aggregate, be included in AGI. Because higher-wage retirees have contributed greater amounts relative to their expected benefits, they would include, on average, less than 93 percent of their benefits in AGI. Lower-wage retirees would, on average, include more than 93 percent of their benefits in AGI.

EFFECT

The revenue from these options declines over time. This decline occurs because the thresholds for taxation of benefits are not indexed for inflation, under current law. As a result, assuming historical rates of inflation continue, a growing percentage of Social Security recipients would be subject to taxation of their benefits as the nominal income rises with inflation. The options would reduce the actuarial imbalance of the Social Security Trust Funds by 0.02 percent, 0.28 percent, and 0.40 percent, respectively.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Revenue increase	*	*	*	*
b. Revenue increase	0.22%	0.17%	0.14%	0.09%
c. Revenue increase	0.26%	0.21%	0.19%	0.15%

32. Increase Social Security payroll tax rates

CURRENT LAW

Social Security (OASDI) is financed through a payroll tax authorized by the Federal Insurance Contributions Act (FICA). Under FICA, employees and employers pay taxes at equal rates on wages up to $60,600 in 1994. The combined employer and employee tax rate is 12.4 percent (6.2 percent each). Currently, the maximum employee's share of OASDI taxes is $3,757, and the average employee's share is about $1,854.

The Social Security Trustees have determined that the Trust Funds are not in long-term "actuarial balance." Generally, if the difference between the projected outgo and income of the Trust Funds is more than 5 percent, the system is considered to be out of actuarial balance. The current estimate projects that Social Security will be underfunded by 2.13 percent of taxable payroll, which is equal to 16 percent of the cost of the system.

OPTION

This option would raise Social Security payroll tax rates to help achieve actuarial balance. The combined employer and employee payroll tax rates would have to increase immediately and permanently by 2.13 percentage points (from 12.4 percent to 14.53 percent) to achieve balance over the next 75 years. Even with an immediate 2.13 percentage point payroll tax increase, the Trust Fund would run cash-flow deficits at the end of the 75-year period. Alternatively, payroll tax rates could be raised gradually over time, but that option would require a rise in payroll taxes of about 4 percentage points in 2030 (from 12.4 percent to 16.4 percent) to close the gap. Economists believe that the burden of payroll taxes falls largely on workers.

The payroll tax rate increase could be allocated one-half to the employer and one-half to the employee, as provided under current law. Alternatively, the allocation between the employer and employee could be changed.

EFFECT

The following table shows the impact of a given combined employer and employee payroll tax increase for any given effective date. For example, a 2 percentage point payroll tax increase (taking total rates from 12.4 percent to 14.4 percent) effective in 2020 would raise revenues of 0.8 percent of GDP in that year. A 1 percent increase in payroll tax rates would improve the actuarial balance of the Social Security Trust Funds by 0.95 percent. A 4 percent payroll tax increase would improve the actuarial balance of the Trust Funds by 3.79 percent.

		2000	2010	2020	2030
Payroll	1%	0.37%	0.36%	0.36%	0.35%
Tax Rate	2%	0.74%	0.73%	0.72%	0.70%
Increase	3%	1.11%	1.09%	1.07%	1.05%
	4%	1.47%	1.45%	1.43%	1.40%

33. Treat a portion of employer-provided fringe benefits as wages for purposes of the employer's share of Social Security payroll taxes

CURRENT LAW

The maximum wage subject to the Social Security payroll tax is indexed annually for the increase in the average national wage. Approximately 88 percent of total cash wages were under the $60,600 taxable maximum in 1994. Non-cash employer-provided fringe benefits, such as employer pension contributions and employer-provided health insurance, are generally not subject to the payroll tax. Approximately 82 percent of total compensation is in the form of wages potentially subject to the payroll tax. This percentage is projected to decline to 77 percent by 2030 as a result of increases in non-cash compensation.

OPTION

This option would subject a share of employer-provided, non-cash compensation to the Social Security payroll tax paid by the employer so that 90 percent of all cash and non-cash compensation would be subject to the payroll tax (before application of the maximum wage). Starting in 2000, about 50 percent of non-cash compensation would be subject to the employer share of the payroll tax. Thereafter, the portion subject to the tax would be the percentage necessary to keep 90 percent of total compensation subject to the employer payroll tax. This option would prevent the erosion of the employer's payroll tax base because of increases in non-cash compensation.

EFFECT

This option would not result in payment of additional benefits (which are based on the worker's taxable wages) because it changes only the employer's share of payroll taxes. It would improve the actuarial balance of the Social Security Trust Funds by 0.95 percent, compared with an overall imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Revenue increase	0.26%	0.31%	0.36%	0.41%

34. Increase the maximum wage subject to the Social Security payroll tax so that 90 percent of wages are subject to the tax

CURRENT LAW

The maximum wage subject to the Social Security payroll tax is currently $60,600 and is indexed annually for the increase in average national wages. Approximately 88 percent of total cash wages are below the $60,600 taxable maximum today.

OPTION

This option would expand the pool of revenue available by raising the maximum amount of wages. Starting in 2000, this option would raise the maximum wage subject to Social Security payroll taxes from $60,600 to a figure equal to 90 percent of all cash wages.

This option is more progressive than increasing the Social Security payroll tax rate because it affects only persons above the current maximum wage. Only about 10 percent of Social Security taxpayers would pay higher taxes.

EFFECT

This option will initially have an impact on revenues. Because benefits are based on the employee's taxable wages, the option will have a subsequent impact on outlays when persons subject to the higher taxable maximum retire and receive greater benefits stemming from a greater amount of earnings being posted to their earnings records. This option would improve the actuarial balance of the Social Security Trust Funds by 0.31 percent, compared with an overall actuarial imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings	*	*	- 0.05%	- 0.10%
Revenue increase	0.23%	0.24%	0.24%	0.23%

35. Eliminate the maximum wage subject to the Social Security payroll tax only for employers

CURRENT LAW

The maximum wage subject to the Social Security payroll tax is currently $60,600 and is indexed annually for the increase in average national wages.

OPTION

This option would eliminate the maximum wage starting in 2000 for the employer's portion of the Social Security payroll tax. As a result, all wages paid by the employer would be subject to the employer's share of the tax. This option would make the Social Security tax more progressive.

EFFECT

This option would not result in payment of additional benefits in contrast to the preceding option, because it only changes the maximum wage for the employer (which is based on the worker's taxable wages). It would improve the actuarial balance of the Social Security Trust Funds by 0.64 percent, compared with an overall imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Revenue increase	0.29%	0.29%	0.28%	0.28%

36. H.R. 4245 introduced by Congressman Rostenkowski

OPTION

H.R. 4245 is a comprehensive Social Security reform proposal that would —

- Accelerate the increase in the Normal Retirement Age, so that it reaches age 67 for persons currently age 45 instead of those persons currently age 34;
- Reduce the primary insurance amount (PIA) for upper- and middle-income persons by adding a third bend point for benefit calculations;
- Reduce the cost-of-living adjustment (COLA) for the year after enactment by 0.5 percentage point;
- Require individuals with income over $25,000 ($32,000 for couples) to include up to 85 percent of their Social Security benefits in taxable income;
- Require all new State and local employees to participate in Social Security; and
- Initiate a series of payroll tax increases that would be phased in over the next 64 years (raising the applicable rate from 12.4 percent to 14.7 percent from 2020 to 2024 and raising it again to 16.3 percent from 2055 to 2058).

Many of these provisions would take effect before 2000.

EFFECT

The package returns the Social Security Trust Funds to actuarial balance. Approximately 60 percent of the long-term effect of this package results from the payroll tax increases. The outlay effect of implementing this option has not been estimated.

37. H.R. 4275 introduced by Congressman Pickle

OPTION

H.R. 4275 is a Social Security reform proposal that would —

- Accelerate increases in the Normal Retirement Age to reach age 67 for persons currently age 45 instead of for those age 34;
- Further increase the Normal Retirement Age to 70 for persons now age 27 and younger;
- Adjust the level of benefits paid under the Disability Insurance program to offset the incentives to file for disabled status resulting from the increase in the Normal Retirement Age; and
- Reduce spousal benefits from 50 percent to 33 percent;
- Require all State and local workers hired after 1999 to participate in Social Security;
- Delay the January cost-of-living adjustment (COLA) adjustments to July;
- Pay the COLA biennially if inflation is 4 percent or less;
- Liberalize benefits for widows and lower the first age for the Supplementary Security Income program to 62 to offset the effects of a higher Normal Retirement Age on early and low-income retirees.

Most of these provisions take effect in 2000.

EFFECT

The package returns the Social Security Trust Funds to actuarial balance. Much of the long-term effect results from the change in the retirement age.