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## ***A DISCUSSION OF CURRENT SOCIAL SECURITY PROPOSALS***

### **INTRODUCTION**

On October 6, 1977, Congressman Al Ullman, Chairman of the House Ways and Means Committee, announced that the Committee had reported to the House an amended bill, HR 9346, to reform the Social Security program. Because of increasing concern over the well-known impending crisis in the financing of social security and because of increasing attention to other problems of the program, legislators have recently considered several different reform proposals. Both President Carter and the Republican minority have submitted their own reforms, which were considered by the Subcommittee on Social Security of the Ways and Means Committee in September. The present bill reflects the compromises and mixtures of these proposals as well as others.

### **PROVISIONS**

1. **Tax Increases:** The bill increases both the payroll tax rates over the increases scheduled in current law as well as the taxable wage base through 1981, after which it would rise in accordance with the wage level. The bill also provides for automatic loans to the Old Age, Survivors, and Disability (OASDI) Funds from the general revenues of the federal government whenever the fund's assets drop below 25% of the annual disbursements.

Discussion: Economists generally agree that there are three ways to deal with the "short-term" deficit of social security financing: increasing the tax rates, increasing the wage base, or general revenue financing. However, the Republican proposal, submitted by Congressman Barber B. Conable (NY), on September 9, tried to avoid these alternatives by allowing for loans among the Trust Funds (as opposed to loans from the general revenues, as in the present bill), by postponing to the age of 68 the point at which full benefits would be available, and by temporary reallocation of scheduled Medicare tax increases to the Trust Funds. President Carter had proposed general revenue financing of social security, but this proved unpopular with Democrats and Republicans alike. The present bill, however, provides for all three methods, though general revenue financing is introduced under the guise of borrowing and only under emergency conditions. The bill also opts for increases in the tax rates and the wage base in place of the idea of delaying the age for full benefits until 68. These provisions would seem politically attractive since they do not alienate older workers who expect to retire at 65. But the tax increases, in a period of inflation, are likely to prove economically harmful, even though the "hidden" costs of social security taxes are not as politically controversial. The increases in the tax rates, which will reach a total combined contribution of 14.9% by the year 2011 and of 12.9% by 1981, will fall heaviest on those in the middle income bracket (approximately \$20,000 a year), and must be added to the tax burden already borne by this category. Furthermore, the funding of social security from increases in the payroll tax rate and in the wage base does not consider that in periods of high unemployment, income to the Funds from these sources will be diminished and that increases in these taxes will themselves contribute to unemployment and higher prices. The problem of these provisions, then, is that they increase taxes and allow for movement toward general revenue financing, a step that would radically alter the nature of the Social Security program from one of a retirement insurance plan to a federally funded welfare program, with all its attendant problems and increased costs.

2. Decoupling: The bill undertakes to "decouple" benefits from the increases in the cost of living. At the present time, both the wage base and the benefits increase automatically with increases in the cost of living. The Committee's bill would index earnings to reflect average yearly increases in wage levels up to the second year before the worker becomes eligible.

Discussion: The coupling provisions of the present system are the immediate cause of the short-term deficit that threatens social security. Since benefits are now calculated on the basis of earnings (wage base) and then adjusted to the

Consumer Price Index, there is a double adjustment for inflation. This has the effect of causing benefit levels to rise faster than wage levels and adds enormously to the costs of the program. Both the President and the Republicans made decoupling proposals that were very similar to the Committee proposal. One alternative to these proposals would be to index the benefits to the price levels rather than to the wage levels. Some prefer this approach because the wage level tends to reflect price increases and benefits indexed to it are thus doubled. But under this alternative, it would be necessary for Congress to make adjustments in the rate at which benefits replace earnings, since the two would not be directly linked. This approach could lead to the politicization of the social security program and the replacement ratios, as there would be continual political pressure to raise them.

3. Coverage: HR 9346 for the first time mandates social security coverage for three categories of workers not previously included: federal employees presently covered by the Civil Service Retirement and other retirement systems, state and local government employees, and the employees of non-profit organizations. This extension, the Committee estimates, would add about 6 to 7 million additional workers to social security. Provision is also made for a comprehensive study of the integration of social security and Civil Service Retirement and other federal retirement systems.

Discussion: This proposal derives essentially from the Republican reform measure, which would have provided for coverage of federal employees. But neither the Republican nor the Carter proposals extended to state and local government employees nor to non-profit organizations. Since there has been an increasing trend of withdrawal from social security by state and local governments -- New York City has selected a private retirement plan which will save it \$183 million a year -- this extension is likely to prove unpopular in some areas and will seem unfair to those who have chosen alternatives. As of March 1976, 332 groups in the category of state and local government employees had withdrawn from the system.

But a more serious problem of this proposal is the constitutional and legal aspect. It is a well recognized principle of constitutional law that the federal government cannot require the states to spend money. This principle has been recently upheld by a 5-4 Supreme Court decision (National League of Cities vs. Usery). Since state and local governments would be required, as employers, to pay social security contributions, it may be that mandating inclusion violates the U.S. Constitution. A similar problem arises in the extension of coverage to non-profit organizations. Since these organizations are exempted from paying taxes by the 501 (c) 3 clause of the Internal Revenue Code, it would seem that compulsory exclusion would violate their

tax-exempt status. While it is clearly in the power of Congress to rescind this status, this provision will seem unfair to many and a reneging of tax-exempt status by the Congress. It could also establish a legislative precedent from which other aspects of tax-exempt status could be reduced. Although coverage of federal and state and local government employees is believed to bring in about \$10.5 billion from each group by 1984, it is doubtful that coverage of non-profit organization employees who are not now voluntarily covered by social security -- about 400,000 persons -- would increase contributions to the Funds significantly.

4. Totalization: The bill authorizes the President to enter into bilateral agreements with foreign countries to provide for limited coordination of social security systems between these nations. This provision, known as "totalization," would do two things. First, it would allow workers who had been covered in a foreign social security system as well as in the American system to draw benefits from both countries based on their respective systems. Secondly, it would not allow work covered by one system to also be covered by the other.

Discussion: This proposal developed from a bill of the Ford Administration (HR 14429) of 1976, and appears to be fairly non-controversial. It would be extremely beneficial to immigrants to the U.S. (especially from Germany, since at the present time former West German citizens are seeking to restore their privilege of making voluntary contributions to the West German social security program and of receiving benefits from it. This was eliminated in 1972.) It is also of interest to Germans who fled Nazi and Communist persecution and are now seeking to draw benefits from the West German government based on their work experience in Germany. Finally, it would also assist U.S. businesses and their employees abroad who at the present time very often are required to pay contributions to both foreign and the U.S. systems but receive benefits from only one country. The U.S. has already negotiated totalization agreements with West Germany (1976) and Italy (1973), but these cannot go into effect until this provision is authorized by Congress.

5. Retirement Earnings Test: This bill would increase the ceiling on earnings a retired person aged 65 to 72 could receive without a reduction in benefits from the current \$3,000 to \$4,000 in 1978 and \$4,500 in 1979. Thereafter, the ceiling would be adjusted in accordance with cost of living increases as under current law. The bill would also eliminate the current monthly measure of retirement. Under this current provision, full monthly benefits are paid to a recipient who does not earn more than 1/12 of the annual retirement test in any month.

Discussion: This aspect of social security is widely regarded as unfair to persons between 65 and 72 who wish to

continue to work. At the present time, the benefits for such persons are reduced by \$1 for every \$2 they receive above \$3,000. However, the argument for the Retirement Test is that social security has the purpose of providing for retirement, and that if a person continues to earn income, he is not fully retired and so should not receive the same benefits as one who is. In addition, it is pointed out that complete abolition of the Retirement Test would add \$6 to \$7 billion in FY78 costs alone.

However, as more and more of the U.S. population comes to be composed of older persons, and as more and more of these persons will want to continue their working life beyond the age of 65, it is reasonable to assume that the current bill will not answer their demands. Merely to raise the ceiling by \$1,500 in the next two years appears largely a cosmetic device. This approach does nothing to meet the demand to eliminate the Retirement Test or to raise its ceiling appreciably. In the Republican proposal, the ceiling would have been raised to \$5,000 in 1978 and to \$7,500 in 1979, after which it would have been eliminated entirely. There are various means by which the costs of such elimination might be regained or reduced. One such technique is by allocating the income taxes of the working elderly to social security or, if the Test is to be retained and not entirely eliminated, by altering its rules (e.g., reducing the age for which exemption begins or decreasing the benefit-reduction rate).

The elimination of the monthly test, which apparently grew out of the Carter proposal as well as from a similar proposal of the Ford Administration, is calculated to save \$173 million in FY78. It would prevent persons from receiving social security benefits when they have worked only part of the year.

6. Sex Discrimination: The bill attempts to remove provisions in the present law which allegedly discriminate against women. Included in this are current provisions which require a marriage to endure for 20 years before an aged divorced spouse becomes eligible for benefits, and which reduces benefits to aged widows and widowers who remarry. The bill would shorten the duration of a marriage term from 20 to 5 years and would forbid reductions in or terminations of benefits for recipients who remarry.

Discussion: These proposals are drawn from the Republican proposals. One objection to shortening the duration of the marriage term is that it adds some incentive to divorces at a time when many other social and economic pressures combine to dissolve marriage and the family. Though reform legislation should no doubt recognize increasing divorce rates as a fact of life, there is no reason to encourage them. It would be possible perhaps to reduce the term from 20 to 10 years rather than to 5 years, thus giving couples who face marital problems

a longer time to resolve them before they become eligible for benefits as divorcees. Furthermore, there are other specific discriminatory problems of social security to which the present bill does not address itself. There are other groups besides women who feel the injustices of discrimination built into social security -- among them low income workers, who must pay the regressive tax of social security, and young persons generally, whose current contributions may be entirely absorbed if the current system is not adequately reformed.

Summary: It is becoming widely understood by legislators -- and by their constituents -- that the Social Security system, the nation's oldest and broadest government-sponsored retirement plan, is facing bankruptcy. Because of long-term changes in the birth-rate and age composition of the American population, and because present payments are unwisely linked to inflation and dependent on the employment rate, it has become clear that the Disability Fund will be exhausted by 1979 and the Old Age and Survivor's Fund will run out of money sometime in the early 1980's.

Reform is, therefore, imperative. But the reforms proposed in HR 9346 do not meet all the requirements of the crisis. There is no effort to deal with the long-term demographic problems posed by the changing composition of American society and indeed hardly any recognition of them. The short-term crisis is to be met merely by increasing taxes -- at a time when nearly all economists are calling for a reduction in taxes -- and by imposing these new burdens on those who are least able to afford them: the young and middle-income categories and those businessmen whose enterprises can only be harmed by these new costs. Nor does the bill seriously meet the charges of discrimination, since it ignores the inequitable effects of social security on the older recipients and workers, on the low-income workers, and on the young as well. The expansion of coverage to new groups of employees is intended to make social security more "fair," but apparently fairness consists in compelling everyone to join a program which those who are able to withdraw from it are increasingly doing. The present proposal has all the marks of compromised measures designed by politicians to satisfy political anxieties and issues -- and not to respond to the problems of the Social Security program or to the needs of those who support and benefit from it and who would be jeopardized by its failure.

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