Molly Brostrom
Domestic Policy COuncil

Box 3: Social Security

SS Background/Talking Points
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SOCIAL SECURITY FACTS AND FIGURES

- Today, there are 43.5 million Social Security beneficiaries (31.4 million age 65 and over). [source: Office of Chief Actuary, Benefit Statistics for June 1996, SSA]

- 3.1 million children receive Social Security benefits today. [source: Office of Chief Actuary, Benefit Statistics for June 1996]

- Today, 91 percent of those 65 and older in the United States receive Social Security benefits. [source: Office of the Chief Actuary, Population Projections for SSA Geographic Area, 1996 Board of Trustees Report]

- For two of every three senior beneficiaries (65 and older), Social Security represents more than 50 percent of their income. [source: Income of the Aged Chartbook, 1994, SSA Office of Research, Evaluation and Statistics, p.9]

- For 16 percent, or 5 million beneficiaries, Social Security is 100 percent of their income. [source: Chartbook, p.9]

- If Social Security did not exist, the poverty rate among older Americans today would be almost 50 percent, instead of today's 10.5 percent. [source: Chartbook, p.10, and latest Census income/poverty figures]

- For 12 million beneficiaries, Social Security is all that keeps them from poverty. [source: Chartbook, p.10]

- Social Security has helped to reduce elderly poverty in our nation by nearly two-thirds (in 1966, 28.5 percent of America's elderly lived in poverty; today, the elderly poverty rate has declined to a record low of 10.5 percent). [source: Census]

October 4, 1996

SOCIAL SECURITY FACTS AND FIGURES

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$\frac{31.4}{34.5} = .91$

Today, 91 percent of those 65 and older in the United States receive Social Security benefits. [source: Office of the Chief Actuary, Population Projections for SSA Geographic Area, 1996 Board of Trustees Report]

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- If Social Security did not exist, the poverty rate among older Americans today would be almost 50 percent, instead of today's 10.5 percent. [source: Chartbook, p.10, and latest Census income/poverty figures] $\frac{11.8}{31.4} = .38 + .105 = 48.5\%$

- For 12 million beneficiaries, Social Security is all that keeps them from poverty. [source: Chartbook, p.10] (.42 x 31.4) or Mar 95 CPS data

- Social Security has helped to reduce elderly poverty in our nation by nearly two–thirds (in 1966, 28.5 percent of America's elderly lived in poverty; today, the elderly poverty rate has declined to a record low of 10.5 percent). [source: Census]

October 4, 1996

FACT SHEET ON THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

A. BENEFICIARIES IN CURRENT-PAYMENT STATUS ON JUNE 30, 1996

	Number of beneficiaries [In thousands]	Monthly rate [In millions]
Total	43,499	$28,321
Retired workers and their family members, total	30,153	20,536
Retired workers	26,723	19,281
Wives and husbands	2,983	1,109
Children	447	146
Survivors of deceased workers, total	7,368	4,547
Children	1,919	909
Widowed mothers and fathers with child beneficiaries in their care	241	119
Aged widows and widowers, and aged parents	5,030	3,438
Disabled widows and widowers	178	82
Disabled workers and their family members, total	5,977	3,238
Disabled workers	4,293	2,928
Wives and husbands	229	38
Children	1,455	273
Uninsured persons generally aged 72 and over before 1968	1	(1)

1 Less than $500,000.
Note: Totals may not equal the sums of rounded components.

B. SELECTED CATEGORIES OF BENEFICIARIES (INCLUDED ABOVE) IN CURRENT-PAYMENT STATUS ON JUNE 30, 1996

	Number of beneficiaries [In thousands]	Monthly rate [In millions]
Disabled beneficiaries (OASDI)—Workers, disabled children aged 18 and over, and disabled widows and widowers	5,162	$3,313
Children (OASDI)	3,821	1,327
Student children	125	55
Disabled children aged 18 and over	691	304
Children under age 18	3,005	968
Survivor children and widowed mothers and fathers	2,159	1,028
Beneficiaries aged 62 and over (OASDI)	35,303	24,223
Beneficiaries aged 65 and over (OASDI)	31,440	21,843

C. AVERAGE MONTHLY FAMILY BENEFITS IN CURRENT-PAYMENT STATUS, JUNE 30, 1996

Beneficiary group	Estimated average family benefits
Retired worker alone (no family members receiving benefits)	$707
Retired worker and spouse, aged 62 and over, both receiving benefits	1,217
Disabled worker, spouse (under age 65), and 1 or more children	1,134
Widowed mother or father and 2 children	1,411
Aged widow(er) alone	684

D. AVERAGE BENEFITS FOR RETIRED OR DISABLED WORKERS IN CURRENT-PAYMENT STATUS, JUNE 30, 1996

Type of benefit	Average monthly benefit
All retired workers	$722
All disabled workers	682

E. BENEFIT PAYMENTS
[In billions]

	Calendar year 1995	Fiscal year 1995
Total	$332.6	$328.8
OASI	291.6	288.6
DI	40.9	40.2

F. MEASURES OF PROTECTION

1. Coverage

About 142 million persons will work in OASDI-covered employment or self-employment in 1996.

About 96 out of 100 jobs in paid employment and self-employment are covered or eligible for coverage under the program.

2. Retirement

Ninety-five percent of the people aged 65 and over at the beginning of 1996 were receiving benefits or would be able to receive benefits when they or their spouses retire.

3. Survivor

About ninety-eight percent of the children under 18 and their mothers or fathers (with children under age 16) can count on monthly cash benefits if a working parent dies.

4. Disability

About four out of five men and women aged 21-64 can count on monthly cash benefits in the event the wage earner suffers a severe and prolonged disability.

G. OPERATIONS OF OASI AND DI TRUST FUNDS, COMBINED
[In billions]

	Calendar year 1995	Fiscal year 1995
Income	$399.5	$396.3
Contributions	359.0	357.5
Other	40.5	38.8
Outgo	339.8	335.8
Benefit payments	332.6	328.8
Other	7.3	7.0
Assets, end of period	496.1	483.2

H. CUMULATIVE OPERATIONS OF OASI AND DI TRUST FUNDS, COMBINED
[In billions]

	1937 through end of Calendar year 1995	1937 through end of Fiscal year 1995
Income	$5,036.9	$4,939.5
Outgo	4,540.8	4,456.4
Assets, end of period	496.1	483.2

Social Security Administration
Office of the Actuary
July 19, 1996

1-A TABLE SUPPLEMENT -- MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS AT THE END OF JUNE 1996

COMBINED PAYMENT CENTERS

	TOTAL	UNDER AGE 62	AGE OF BENEFICIARY AT END OF MONTH AGE 62 AND OVER	AGE 62-64	AGE 65 AND OVER
1. TOTAL OASDI -- INCLUDING SPECIAL -J AND K- BENEFICIARIES					
NUMBER.........	43,498,943	8,195,896	35,303,047	3,862,801	31,440,246
PIA............	32,441,527,705.30	5,855,698,645.60	26,585,829,059.70	2,991,863,420.30	23,593,965,639.40
AVG PIA........	745.80	714.47	753.07	774.53	750.44
AMOUNT.........	28,321,226,635.00	4,098,331,606.40	24,222,895,028.60	2,379,798,474.10	21,843,096,554.50
AVERAGE AMOUNT.	651.08	500.05	686.14	616.08	694.75
2. ADULT MALE OASDI -- INCLUDING DISABLED CHILDREN AND SPECIAL -J- BENEFICIARIES					
NUMBER.........	17,013,211	2,618,052	14,395,159	1,711,395	12,683,764
PIA............	14,722,747,540.50	1,969,697,763.20	12,753,049,777.30	1,544,809,427.00	11,208,240,350.30
AVG PIA........	865.37	752.35	885.93	902.66	883.67
AMOUNT.........	13,500,748,169.30	1,839,184,102.00	11,661,564,067.30	1,318,112,864.90	10,343,451,202.40
AVERAGE AMOUNT.	793.54	702.50	810.10	770.20	815.49
3. ADULT FEMALE OASDI -- INCLUDING DISABLED CHILDREN AND SPECIAL -J AND K- BENEFICIARIES					
NUMBER.........	23,355,533	2,447,645	20,907,888	2,151,406	18,756,482
PIA............	15,435,314,652.20	1,602,535,369.80	13,832,779,282.40	1,447,053,993.30	12,385,725,289.10
AVG PIA........	660.88	654.73	661.61	672.61	660.34
AMOUNT.........	13,796,975,057.70	1,235,644,096.40	12,561,330,961.30	1,061,685,609.20	11,499,645,352.10
AVERAGE AMOUNT.	590.74	504.83	600.79	493.48	613.10
4. TOTAL OASI -- INCLUDING SPECIAL -J AND K- BENEFICIARIES					
NUMBER.........	37,521,711	2,860,121	34,661,590	3,247,084	31,414,506
PIA............	28,236,993,210.20	2,136,612,052.50	26,100,381,157.70	2,529,100,883.00	23,571,280,274.70
AVG PIA........	752.55	747.04	753.01	778.88	750.33
AMOUNT.........	25,082,807,376.40	1,305,840,369.70	23,776,967,006.70	1,940,027,153.00	21,836,939,853.70
AVERAGE AMOUNT.	668.49	456.57	685.97	597.47	695.12
5. TOTAL OASI -- EXCLUDING SPECIAL -J AND K- BENEFICIARIES					
NUMBER.........	37,520,914	2,860,121	34,660,793	3,247,084	31,413,709
PIA............	28,236,839,070.40	2,136,612,052.50	26,100,227,017.90	2,529,100,883.00	23,571,126,134.90
AVG PIA........	752.56	747.04	753.02	778.88	750.35
AMOUNT.........	25,082,654,218.60	1,305,840,369.70	23,776,813,848.90	1,940,027,153.00	21,836,786,695.90
AVERAGE AMOUNT.	668.50	456.57	685.99	597.47	695.14
6. TOTAL DI					
NUMBER.........	5,977,232	5,335,775	641,457	615,717	25,740
PIA............	4,204,534,495.10	3,719,086,593.10	485,447,902.00	462,762,537.30	22,685,364.70
AVG PIA........	703.43	697.01	756.79	751.58	881.33
AMOUNT.........	3,238,419,258.60	2,792,491,236.70	445,928,021.90	439,771,321.10	6,156,700.80
AVERAGE AMOUNT.	541.79	523.35	695.18	714.24	239.19
7. TOTAL OAB					
NUMBER.........	26,722,669	0	26,722,669	2,457,968	24,264,701
PIA............	19,480,090,603.30	.00	19,480,090,603.30	1,831,041,505.70	17,649,049,097.60
AVG PIA........	728.97	.00	728.97	744.94	727.35
AMOUNT.........	19,281,263,741.60	.00	19,281,263,741.60	1,551,092,591.80	17,730,171,149.80
AVERAGE AMOUNT.	721.53	.00	721.53	631.05	730.70

Social Security Area Population as of July 1, 1996 under 1996 Trustees Report Alternative II

Sex andMarital State

		Male					Female				
Age	Total	Total	Single	Married	Widowed	Divorced	Total	Single	Married	Widowed	Divorced
0- 4	20511937	10493926	10493926	0	0	0	10018011	10018011	0	0	0
5- 9	20721712	10599339	10599339	0	0	0	10122373	10122373	0	0	0
10-14	19760069	10109066	10108968	97	0	1	9651003	9649248	1741	0	14
15-19	18715619	9566425	9412054	146398	84	7889	9149194	8639466	481291	1791	26646
20-24	18016126	9201501	7208782	1834915	1713	156091	8814625	5541278	2980806	11867	280674
25-29	20236372	10306006	5021324	4692974	7707	584001	9930366	3193778	5913025	34663	788900
30-34	22480038	11430533	3275758	7110072	16879	1027824	11049505	1830839	7904279	85132	1229255
35-39	23388488	11836176	2164079	8279344	42841	1349912	11552312	1264411	8554784	166891	1566226
40-44	21321231	10691525	1240784	7996995	61959	1391787	10629706	757999	7917969	270079	1683659
45-49	18902181	9410147	816830	7308746	89012	1195559	9492034	569368	7043128	374878	1504660
50-54	14710492	7266880	505465	5779428	129394	852593	7443612	375901	5541281	475965	1050465
55-59	11818237	5775578	343788	4687685	155942	588163	6042659	262869	4351158	712847	715785
60-64	10337675	4956911	307703	4015036	218079	416093	5380764	230888	3564920	1076055	508901
65-69	10024174	4647814	281104	3675427	357639	333644	5376360	241058	3148441	1601600	385261
70-74	8972177	3947170	220838	3032134	454286	239912	5025007	240795	2432921	2052193	299098
75-79	6919549	2843657	144332	2041756	529185	128384	4075892	227759	1401114	2269522	177497
80-84	4646750	1680868	76968	1113199	436581	54120	2965882	190108	626961	2062471	86342
85-89	2569217	772240	32484	427860	290097	21799	1796977	114620	286177	1346242	49938
90-94	1064888	258830	10077	107474	133666	7613	806058	49629	96527	636101	23801
95-**	334168	63876	2184	15121	44537	2034	270292	15233	18115	227845	9099
0-19	79709337	40768756	40614287	146495	84	7890	38940581	38429098	483032	1791	26660
20-64	161210840	80875257	20884513	51705195	723526	7562023	80335583	14027331	53771350	3208377	9328525
50-64	36866404	17999369	1156956	14482149	503415	1856849	18867035	869658	13457359	2264867	2275151
62-64	6055769	2887994	180012	2329121	144864	233997	3167775	136845	2061360	690583	278987
65-**	34530923	14214455	767987	10412971	2245991	787506	20316468	1079202	8010256	10195974	1031036
20-65	163250336	81836289	20944300	52473038	783651	7635300	81414047	14074500	54446352	3481577	9411618
20-66	165286700	82791122	21002740	53232282	850349	7705751	82495578	14122348	55103108	3778378	9491744
20-67	167301720	83727412	21059287	53972534	922824	7772767	83574308	14170686	55734134	4100623	9568865
20-68	169294175	84642625	21113886	54691888	1000422	7836429	84651550	14219608	56341363	4447411	9643168
20-69	171235014	85523071	21165617	55380622	1081165	7895667	85711943	14268389	56919791	4809977	9713786
66-**	32491427	13253423	708200	9645128	2185866	714229	19238004	1032033	7335254	9922774	947943
67-**	30455063	12298590	649760	8885884	2119168	643778	18156473	984185	6678498	9625973	867817
68-**	28440043	11362300	593213	8145632	2046693	576762	17077743	935847	6047472	9303728	790696
69-**	26447588	10447087	538614	7426278	1969095	513100	16000501	886925	5440243	8956940	716393
70-**	24506749	9566641	486883	6737544	1888352	453862	14940108	838144	4861815	8594374	645775
0-**	275451100	135858468	62266787	62264661	2969601	8357419	139592632	53535631	62264638	13406142	10386221

CY94

SOCIAL SECURITY AND PERSONS IN POVERTY, MAR95 CPS

	Total	<21	21-49	50-61	<62	62+	65+
PERSONS							
Total	254,531,353	76,674,682	113,063,989	27,804,559	217,543,230	36,988,123	31,017,464
BELOW POVERTY LINE ALREADY	36,523,552	16,208,005	13,420,644	2,552,893	32,181,542	4,342,010	3,646,409
KEPT ABOVE POVERY BY SOCIAL SECURITY	16,137,339	985,845	1,457,318	1,021,379	3,464,542	12,672,798	$\boxed{11,759,251}$
ABOVE POVERTY EVEN WITHOUT SOCIAL SECURITY	201,870,462	59,480,832	98,186,028	24,230,288	181,897,147	19,973,315	15,611,804
PERSONS (FWGT)							
Total	251,455,011	76,833,123	109,921,975	27,721,000	214,476,097	36,978,914	31,027,791
BELOW POVERTY LINE ALREADY	36,399,540	16,449,466	13,079,780	2,527,335	32,056,581	4,342,959	3,651,539
KEPT ABOVE POVERY BY SOCIAL SECURITY	15,872,663	960,293	1,262,506	997,123	3,219,921	12,652,742	11,749,401
ABOVE POVERTY EVEN WITHOUT SOCIAL SECURITY	199,182,809	59,423,364	95,579,689	24,196,542	179,199,595	19,983,214	15,626,851

$\frac{11.8}{31.0} = .38$

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File: Adv Council

Touching the Rail

Social security has long been the third rail of American politics. But some Capitol Hill lawmakers are making noises about overhauling the program, and Washington's Cato Institute is raising $2 million from Wall Street, the insurance industry and conservative interests to push for privatizing it.

BY JULIE KOSTERLITZ

Don't bother telling Rep. Jim Kolbe, R-Ariz., about the voltage in the third rail of politics. In 1982, after the Reagan Administration announced plans to tinker with the social security system, Kolbe narrowly lost his first bid for Congress in a campaign that crackled with warnings from Democrats about the GOP's malign intentions toward the popular program.

Just a few months ago, however, with encouragement from House Speaker Newt Gingrich, R-Ga., Kolbe launched the Public Pension Reform Caucus to explore ways to remake the New Deal's mega-legacy. Kolbe, who believes that social security should be scrapped and replaced with a system of private, personal investment accounts, said that his goal was "to have people talking about it, thinking about it . . . and to prove to Members that you can talk about this without dying."

The early indications are that Kolbe's task might not be as hard as it once seemed. Not only has Kolbe attracted a handful of conservative Democrats to his caucus, but its first event—a dinner lecture on the seemingly arcane topic of Chile's privatized retirement system—drew a crowd of nearly 40 Capitol Hill lawmakers, even though it was held during a series of key floor votes. "This much interest, this fast, has been a surprise," said Mike Tanner, the director of health and welfare studies at the Cato Institute, a libertarian think tank, which co-sponsored the dinner. Freshman and younger lawmakers tend to be the most enthusiastic, he added. "There's a certain generational aspect involved."

The idea that social security is a political "untouchable" is already changing. Malcolm S. (Steve) Forbes Jr., who's running for the Republican presidential nomination, has proposed replacing the social security system for younger workers with a system of individual retirement accounts (IRAs). In the Senate, Alan K. Simpson, R-Wyo., this year held hearings on a bill he co-sponsored with Robert Kerrey, D-Neb., that would funnel a portion of social security taxes into private IRAs. And a government advisory council on the future of social security, while hopelessly divided, is likely to include a partial privatization option in its final report, which is likely to be out early next year. (See box, p. 3138.)

Even the so-called liberal media establishment has been taking a decidedly tougher line. In March, *Time* magazine set tongues wagging across the ideological spectrum with a cover story headlined "The Case for Killing Social Security."

All this comes as sweet vindication to longtime critics of the system. Social security may be "off the table" in this year of balanced budget negotiations and pre-election posturing. But conservatives in both parties, libertarians and business interests are gearing up for the mother of all entitlement battles: a fundamental overhaul of social security.

This fall has seen a flurry of networking and organizing around the issue, on and off Capitol Hill, which in turn is expected to result in a blizzard of new legislation, hearings and reports, conferences and coalitions next year.

In the center of action is the not-for-profit Cato Institute, which in August (on social security's 60th anniversary) launched a project to push—through studies, speeches, public opinion polling and a working group of like-minded organizations—the idea of privatizing the system. Officials of the Cato Institute say that they expect to raise, and spend, nearly $2 million on the project. It's already received a major grant from the conservative Jaquelin Hume Foundation in San Francisco.

The coming crusade may be driven by conviction, but it is also about hard, cold cash. Wall Street and the insurance industry, which stand to profit handsomely from even the most modest privatization plans, are already poised to use their clout and deep pockets to advance the cause. Industry trade groups such as the Investment Company Institute (which represents mutual funds), the Securities Industries Association and the American Council of Life Insurance are participating in the Cato Institute's working group, and some are beginning their own efforts on the issue.

The crusade could also boost the fortunes of its leaders. The Cato Institute, for example, is asking various companies in the financial services industry to help finance its project. The Starr Foundation, which is associated with American International Group Inc., the New York City-based insurance giant, has already anted up, and Tanner said that others in the industry have promised to do so. "We're raising money from it," he said of the project. Other organizations hope to gin up grass-roots interest in the cause—and, of course, contributions. And, as usual, lobbying firms, pollsters, advertisers and direct-mail firms are starting to position themselves to get a piece of the action.

Why all this commotion now about a program that isn't expected to hit the skids until around 2030? The reason, social security experts of all stripes agree, is that the program will begin flirting with some less dramatic but significant fiscal and political problems in about 15 years, and averting these requires action before the turn of the century.

Those bent on a radical restructuring of social security know they can't start making their case too soon. Notwithstanding all the doubts about the program's future that show up in opinion polls, social security remains enormously popular with Americans of all ages.

"You're just going to have to lay the groundwork for it," Kolbe said. "This is not something you can do overnight." A popular backlash in the 1996 elections against Republicans over their proposed reductions in medicare spending could send the shock troops of the social security revolution diving for cover. By the same token, if such a backlash fails to materialize, the radical reformers are likely to be greatly emboldened.

Not all the obstacles facing privatization of the social security system, however, are political. One of the biggest is financial: The transition to a private system would entail huge costs. Advocates of radical reform concede that they need to use the lead time not merely to sell the public on the need for change, but also to work through the thorny technical and financial issues that their reforms would entail.

Even so, the shift in climate has been significant enough to alarm some of the program's guardian angels. Budget-driven politics and a climate of public mistrust of government "have fueled a drive, that some want for ideological reasons, to privatize social security and has brought mainstream policy people to consider it seriously," said Gerald M. Shea, AFL-CIO president John J. Sweeney's assistant for government affairs and a member of the government's Advisory Council on Social Security. Shea said that he was alarmed by attitudes he found as he made the rounds of major newpapers and magazines. "I met with reporter after reporter," he said, "who was personally angry about social security."

But what troubles others the most is the large shadow cast by Wall Street interests. "I'm more worried about them, because they have more potential to be effective," said Robert Ball, a former social security commissioner and influential advocate for the program who's also a member of the Advisory Council on Social Security.

THE PIE IN A FALLING SKY?

Privatizing social security—broadly understood as doing away with a publicly financed retirement system in favor of private arrangements—isn't a new idea. Economist Milton Friedman made it an issue in the 1950s; it was one of the Cato Institute's first items of business after it opened its doors in 1977; and it's surfaced periodically in Washington circles—in 1986, Gingrich floated a proposal to privatize the system.

Advocates of privatization have historically sounded a libertarian theme: A massive, paternalistic, government-run retirement system takes money, choices and control away from individuals. They've also had an economic corollary: The system distorts and reduces individuals' economic incentives to work and to save.

But an idea once relegated to the fringes of political debate has just recently moved toward the center. One propellant: falling public confidence in government generally and social security's future in particular. Another spur has been the focus on entitlement programs by deficit hawks, starting with 1992 presidential aspirants Paul E. Tsongas and Ross Perot, and continuing with last year's Bipartisan Commission on Entitlement and Tax Reform, which was chaired by Kerrey and then-Sen. John C. Danforth, R-Mo.

Underlying both currents are fears that a tsunami of baby boomer retirements is going to bust the bank—fears that have magnified as that eventuality draws ever closer. Public expectations that the system won't be there when they need it are bleaker than the forecasts of the program's trustees, who say that even with no changes, the program can pay full benefits until 2030—around the time the last of the boomers retire—and 75 per cent of promised benefits for at least 20 years after that.

Still, that kind of shortfall isn't trivial: If no changes are made in the program, bridging it would require boosting the social security payroll tax from 12.4 per cent of eligible annual wages to about 17 per cent. This has sparked growing attention to the economic burdens already piling up on tomorrow's workforce, both in the works of such economists as Laurence J. Kotlikoff of Boston University and a procession of Generation-X advocacy organizations, such as New York City-based Third Millenium.

For some deficit hawks, the concerns are more immediate. They see trouble for the federal budget starting around 2012, not long after the leading edge of the boomers start cleaning out their desks and heading south. That's when payouts to retirees start exceeding social security's payroll tax revenues and the government has to start repaying the IOUs it issued to the program for past surpluses, with interest. Repaying those IOUs means raising general-purpose taxes or increasing the over-all federal budget deficit. Deficit hawks are also alarmed about the growing share of the federal budget that's consumed by automatic spending for entitlement programs—currently at 50

Richard A. Bloom

Rep. Jim Kolbe, R-Ariz., the founder of the the Public Pension Reform Caucus
His goal, he says, is "to prove to Members that you can talk about this without dying."

per cent of the budget and, absent any changes, headed higher—that are aimed chiefly at older Americans.

The year 2012 might seem a political eternity, but the longer Congress waits, the fewer and more painful its options: mainly hefty, immediate tax increases or cuts in benefits. And in politics, those are two of the deadliest sins of all.

TOURNIQUET TIME?

Faced with these unpleasant realities, some deficit hawks have been looking to the private securities markets for solutions. Investing some or all of the money that would otherwise be paid in social security taxes in stocks, bonds and allied instruments—which typically offer higher long-term yields than government securities—might provide a new infusion of retirement money, and thus spare politicians the need to apply as tight a tourniquet to stop the system's hemorrhage. Such an infusion of capital, the theory goes, could also boost national economic growth, which in turn would ease the burden of the baby boom retirement bulge.

The idea got a boost last year when the World Bank issued a report that was critical of the kind of social security programs found in aging, industrialized countries and full of praise for the privately managed, mandatory personal savings scheme that Chile adopted after it privatized its social security system in 1981. The report, its authors say, wasn't directed at the United States, whose social security system is in far better shape than its counterparts in other countries and where the Chilean model is likely to be far less helpful than in might be in Third World and East European countries. But the report has nevertheless been used by advocates of privatization to bolster their arguments.

Kerrey and Simpson would take a teeny step in Chile's direction by allowing individuals to divert 2 percentage points of the existing payroll tax into privately managed individual accounts, an idea that's similar to one broached—but not actually endorsed—by the Kerry-Danforth commission. The Progressive Policy Institute, the research arm of the centrist Democratic Leadership Council, also favors partial privatization along with some cuts in benefits.

Even traditionalists are advocating letting the federal government invest some of the program's surpluses—which now go into special Treasury bonds—in much the way that state governments invest employees' pension funds. That could help the government out of its fiscal bind without increasing the risks to beneficiaries. Privatization enthusiasts say that such government investment smacks of socialism and that political considerations would invariably interfere with sound investment decisions.

More important, they say, it wouldn't do away with the pay-as-you-go nature of social security—in which each generation of workers is taxed to pay for the benefits of current retirees—a setup they liken to an illegal pyramid scheme. Letting individuals keep some or all of that money and requiring them to invest it for their own retirements would put an end to government's habit of using social security surpluses to mask deficit spending. It also would boost the public's sagging confidence in the system, they say, by giving individuals ownership and control over the funds. It would even, some argue, boost over-all savings—the key, in their view, to spurring national economic growth.

Privatizing some or all of social security would also tackle what's shaping up as an increasingly difficult public relations problem for the program: Over time, it's become less attractive when compared with alternative investments. The "payoff" from social security is starting to look especially low for the affluent—some of whom, now, for the first time, can actually expect to get less in benefits than they paid in taxes. And it will only get worse if

A COMMISSION'S SUDDEN TURN

Is privatizing social security a pipe dream? In an unexpected, 11th-hour development, 5 members of a 13-member government advisory commission voted in mid-December to endorse a plan to partially privatize the system.

The strong show of support for the politically radical idea was a surprise in part because it came just weeks before the 1994-95 Advisory Council on Social Security—which was expected to complete its work months ago—was slated to issue a final report and close up shop. What's more, its members hadn't even seen a detailed analysis of the partial privatization option until a few days before their Dec. 14 meeting.

Although a slim plurality of members seems likely to line up behind a far more modest reform plan, such a strong showing for partial privatization within the nonpartisan panel—whose members were appointed by Health and Human Services Secretary Donna E. Shalala in June 1994—will undoubtedly influence the coming debate over the future of social security.

Before the straw vote, the council—already hopelessly fragmented—had divided into two major camps: one headed by Robert Ball, the 81-year-old former social security commissioner, the other by chairman Edward Gramlich, a onetime acting director of the Congressional Budget Office who now heads the University of Michigan's Institute of Public Policy Studies.

Ball, whose long professional involvement with the program over the decades has made him its patron saint, has proposed a grab bag of minor adjustments that would allow the program to once again pass the actuaries' technical test of long-term fiscal health while avoiding major tax hikes and cuts in benefits. Ball's main concern is warding off major changes in the program's historic structure.

Gramlich has argued for stiff reductions in expected benefits for future retirees. He aims to avoid any increase in payroll tax rates—which he considers politically unsalable and unfair to future generations.

Although six members of the council sided with Ball, dissenters say that his seeming no-pain solutions are only temporary fixes and are likely to require a tax increase sometime—perhaps decades from now. "For some of us, saying 'We'll make a nip here and a tuck there and then 30-40 years in the future assume Congress legislates a tax increase' is not satisfactory," said Sylvester Schieber, the director of the Research and Information Center at the Wyatt Co., a Washington-based benefits consulting firm.

It was Schieber and Carolyn L. Weaver of the American Enterprise Institute for Public Policy Research, a onetime aide and current adviser to Senate Majority Leader Robert Dole, R-Kan., who pushed the idea of steering 5 percentage points of the social security payroll tax into private retirement accounts.

The Dec. 14 meeting left the council's final report—originally due by year's end, but now expected in mid-January—up in the air. As members of the council scattered for the holidays, Gramlich was proposing to redraft his proposal, in a last-minute bid for support, and Ball's allies were grumbling at the hasty consideration of such a major change in social security, which, they fear, could lead to the unraveling of the current system. "Depending on how it's presented, I may not put my name on it," Gerald M. Shea of the AFL-CIO, a member of the council, said of the panel's final report. "It could turn out to be a destructive document."

benefits are cut or taxes raised to address the impending shortfall. "Even if you could fix social security somehow . . . that really wouldn't address the most significant problem," Tanner told an audience in August. "And that is that social security, quite simply, is a bad investment."

Tanner, Kolbe and others cite numbers worked up by Bill Shipman, the co-chairman of the Cato Institute's privatization project and a principal with State Street Global Advisors, a Boston-based financial management firm. In his analysis, high-income earners born in 1970 who invested in stocks the amount that they would otherwise pay in social security taxes could receive nearly six times the benefits they're slated to get from social security; a low-wage earner who did likewise could get nearly three times the expected benefits from social security. (Departing from traditional libertarian orthodoxy, total privatization advocates such as Tanner accept the idea that government should mandate—and, at least initially, regulate—a system of private, retirement investment plans.)

HOW DIRE THE STRAITS?

The idea that social security is in dire straits angers its defenders, who maintain that the system's problems are overstated. The projected increase in the cost of the program from 2005-35—2 percentage points of gross domestic product—is comparable to the increase from 1962-80, Henry J. Aaron, the director of the Brookings Institution's economic studies program, said in a recent speech. It's a significant increase, he said, but not beyond the nation's means. "Are we going to face budgetary stress?" he asked. "Yes we are. Will those stresses require that we dismantle or privatize social security? No." Aaron argues that both reducing benefits and increasing taxes should be part of the solution.

Privatization, experts say, would invariably create new winners and losers. "Some of the gains and losses involved for individuals are so complicated we don't understand them," Edward Gramlich, the chairman of the Advisory Council on Social Security and the director of the University of Michigan's Institute of Public Policy Studies, said. "Everyone ought to go into this with a great deal of reverence for the dislocations that could come about. There could be huge and unanticipated changes."

Social security's defenders maintain that the privatization enthusiasts also understate the risks of their approach. Not everyone, of course, can achieve above-average investment returns; losses or poor returns could devastate an individual's retirement security. Low-wage workers, who currently get a leg up in retirement from social security's progressive benefit formula, the program's defenders say, tend to be inexperienced in the ways of Wall Street and are likely to be the big losers in a privatized system.

There's more: Wall Street's happy history doesn't guarantee a happy future and, in any event, tends to obscure the fact of inevitable downturns in the market; just because there's a long-term rise in global temperatures doesn't mean it won't snow the day you retire. It was just such dangers that social security—which was crafted in the aftermath of the Great Depression—was meant to avoid. "This is clearly shifting the risk to the individual," David Certner, the senior coordinator in the federal affairs department of the American Association of Retired Persons (AARP), said. Why expose individuals to greater risks, he asks, at a very time that employer pension plans are moving in that direction? Nearly two-thirds of all older Americans rely on social security for at least half of their incomes.

Rate-of-return comparisons can also be misleading because they don't factor in the value of an array of benefits and protections built into the social security system that the private sector provides only at great cost, or not at all: disability insurance, survivors' benefits, guaranteed and inflation-adjusted benefits.

Nor do rate-of-return comparisons take into account what may be privatization's Achilles' heel: the transition costs. "Any proposal that scraps social security is saying, in effect, to today's 45-year-olds [and those younger], you have to pay for two generations," Gary Burtless, an economist at the Brookings Institution, said. "You have to pay for those already 45 or older to finance their promised entitlements, and [you have to] save enough and get a rate of return spectacular enough to pay for your own retirement."

These transition costs represent serious money. Under a scenario being studied by the Advisory Council on Social Security, in which workers under 55 would divert 5 percentage points of the 12.4 per cent combined employer-employee payroll tax to private investment accounts with a commensurate reduction in social security benefits, payroll taxes would have to be increased by 1.5 percentage points for the next 70 years just to cover all of social security's old obligations. Higher taxes would, of course, reduce over-all rates of returns. And if the government instead chose to finance the transition cost through higher borrowing, it would essentially offset the economic benefits from increased private investing.

It was these hefty transition costs that made Kerrey and Simpson decide to propose "privatizing" only 16 per cent of social security's payroll tax revenues. To pay for the scaled-down transition costs, Kerrey and Simpson would cap cost-of-living increases.

But such a modest shift wouldn't buy much relief from social security's fiscal crunch, either. To deal with that, Kerrey and Simpson would also raise the future age of eligibility for full benefits from 67 to 70. Nor would it confer most of the benefits that privatization enthusiasts dream about. "It's a possible way of getting a foot in the door," Kolbe said of the Kerrey-Simpson proposal. "I don't think it's the solution."

Kolbe and others seem unfazed by the transition costs. "It's not a tough nut to crack from a technical or economic standpoint," Kolbe argued. Tanner suggests, among other ideas, asking young people to simply write off their past contributions, making further cuts in federal spending and selling off federal assets—ideas consistent with Cato's libertarian agenda, but not an easy political sell.

That's why he and like-minded interests are gearing up now. The Cato Institute has launched what Tanner calls its "largest project"—it's budgeted at $600,000 a year for the next three years—to "make the intellectual case" for privatization. The Cato Insitute also recently sponsored a cross-country speaking tour for José Piñera, the charismatic former

John Eisele

Gerald M. Shea of the AFL-CIO
He's alarmed by the drive to privatize.

Stats?

Chilean labor minister who launched the privatization effort, who's a co-chairman of its privatization project.

The Cato Institute's "working group" on privatization drew about 30 representatives from conservative and industry groups at its first meeting in September. Among those sending representatives were several Capitol Hill lawmakers and the American Bankers Association, the American Council on Life Insurance, American Express Co., American International Group Inc., Enron Corp., International Business Machines Corp., the Investment Company Institute, Kemper Corp., the Progress & Freedom Foundation, Travelers Inc. and 60-Plus, a conservative advocacy group.

An array of other conservative think tanks and interest groups, including the Heritage Foundation and Citizens for a Sound Economy, are promoting privatization.

The interest in privatization is hardly surprising: diverting even 2 percentage points of the social security payroll tax into such private investments as stocks, bonds and insurance products would mean an influx of $60 billion a year, to start, into the market. "The whole financial industry could stand to make some very big money on it," Ball said. "You're talking about more than 100 million workers having substantial sums to invest."

Business interests are gearing up to push the issue as well. Representatives of the Investment Company Institute testified at Simpson's hearings this year in support of a partial, voluntary privatization proposal, and the institute recently hired an actuary to flesh out its proposal. The Washington office of Malibu (Calif.)-based Goddard*Claussen/First Tuesday, an advertising and issue-advocacy consulting firm, is discussing a campaign to push for an overhaul of social security for a company in the financial services industry, said vice president Robert Tappan, who wouldn't identify the client.

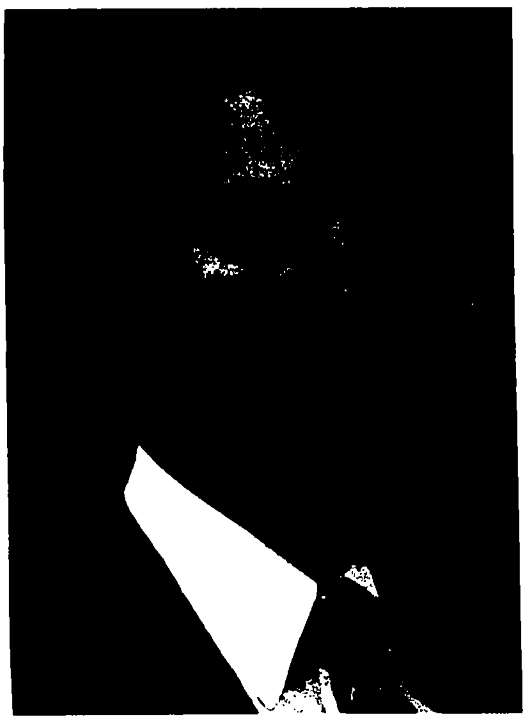
Interest in changing the social security system is also high in the broader business community: the Business Roundtable, the National Association of Manufacturers and the U.S. Chamber of Commerce have all recently launched task forces on social security reform. Among other things, they want to head off any talk of a payroll tax hike and monitor the implications for employer-sponsored pension plans.

GRASS ROOTS AND GREENBACKS

Meanwhile, the lobbying firm of McClure, Gerard & Neuenschwander—the name partners are ex-Sen. James A. McClure, R-Idaho, and his two top Senate aides—is laying plans for the Retirement Security Coalition, which will be spearheaded by vice president Anne C. Canfield, a former Capitol Hill aide and adviser to the Cato Institute's project. The firm, which is readying an Internet home page and making plans for a direct-mail fundraising campaign, wouldn't disclose how much it plans to raise—and spend—on the coalition.

On Capitol Hill, advocates of a major overhaul of the system are shooting mainly for small, symbolic gains: Simpson and Kerrey hope to have the Finance Committee hold hearings on their legislation, and, eventually, more co-sponsors (only Charles S. Robb, D-Va., has signed on thus far). In the House, where John Edward Porter, R-Ill., has put partial-privatization bills in the hopper since 1990, Republicans Michael N. Castle of Delaware and Mark Sanford of South Carolina and are also working on proposals.

In the same vein, Rep. Jennifer B. Dunn, a first-term Republican from Washington, recently attached a little-noticed amendment to a House-approved measure to repeal the "earnings penalty" for social security beneficiaries who work. Dunn's amendment would require the Social Security Administration to start a pilot program that would automatically provide recipients with the data needed to compare the benefits they receive with the taxes they've paid in. The idea, an aide to Dunn said, is to make older Americans aware of the program's looming fiscal problems and of the excess of benefits they're now receiving over taxes paid; but it could also serve to ratchet up discontent among high-income voters.



Richard A. Bloom

Mike [redacted] of the Cato Institute "We're raising it."

Although the conservatives who want to overhaul social security have made some efforts at bipartisanship, some are already playing hardball. Despite pleas from the White House and key Democrats, Senate Republican leaders have refused to act on the nomination of social security commissioner Shirley Chater to a six-year term at the helm of the newly independent Social Security Administration, or that of any of President Clinton's three nominees to its advisory board.

The defenders of social security, especially in the seniors' lobby and within organized labor, have been taking note. More than a year ago, leaders of the AFL-CIO, the AARP and the National Council of Senior Citizens, a labor-affiliated lobby, grew alarmed about the tone of discussions about social security emanating from the Kerrey-Danforth commission. "They were starting from the point of view that these programs were unsupportable, and a big mistake—if not a hoax—on the American people," the AFL-CIO's Shea said. "We thought that was extreme and unbalanced."

They decided that the threat couldn't be ignored. The AFL-CIO commissioned a poll on public attitudes about social security; the federation also put out a four-page insert on social security in several union publications, set up a press conference featuring labor leaders from Chile and Argentina who gave mixed reviews of their privatized systems and, along with representatives of AARP, met with journalists at several major news organizations.

The poll results, Shea said, were encouraging, showing continuing high levels of support for the program. But the meetings with the journalists were not. One of the authors of *Time*'s article, Suneel Ratan, Shea said, complained about the negative rate of return that he and his wife would receive from social security. "He said he would make more if he could invest the money privately and do the economy lots more good," Shea said. "It really floored us to understand that there was a group of younger, well-educated Americans who really were angry."

For believers in the system, the confluence of free-marketers, budget hawks and disgruntled elites is worrisome enough. Toss in Wall Street's bottomless pockets and you've got the makings of a real movement. "This may be a case," Ball said, "of self-interest and ideological bent coming together."

1995 Trustees Rpt → inc short of out
(1996 Rpt → June)   TF exhausted in 2030

Pay Go
System: $355 B each yr – pay out $308 B
~ 50 B excess ⇒ TFund
now TF: $436 B ⇒ expect
[* In 2013 → w/o interest]
- interest being tacked on to TF

Still requests for actuaries (who are wkg on
mid-June

→ Excluded state + local employees → some are/not included
□ Taxation of Benefits → thresholds based on taxation of other retirement income
(25K → 50%
32K → 85%) Proposal would move to 85% for all inc levels

Option 1 - Ball + 6 (- payroll tax ↑ in 2050 → lower in newer version
(raises TF % from 37.5 → 40
2 - Gramlich + 1 (New version of rpt – after BLS rpt
3 - Weaver/Schieber + 3
(5 total)

would expose more of deficit

Portion of TF | Almost as large as Fidelity
TSP: several hundred million

SOCIAL SECURITY
(Draft for NCOA Annual Conference)

Reaffirming its strong support of the present Social Security system and its fundamental agreement with policy positions of the 1995 White House Conference on Aging that the program's current structure and purposes should be strengthened and maintained without means testing, with universal coverage and with continued protection against inflation (i.e. cost of living adjustments), the National Council on the Aging nevertheless considers it imperative that the Administration and the Congress take early action to address the long term future of the Social Security cash benefit system. In light of the imminence of major proposals to assure that the system will achieve the long term solvency now threatened by the future benefit eligibility of the 75 million individuals comprising the so-called "Baby Boom" generation, NCOA firmly believes that:

(I) Social Security should not be replaced in whole or part with individually controlled accounts because of the adverse effect or such privatization on lower income workers, unknown market impacts of such an initiative, and the increased risk that investment revenue might not be adequate to provide the system's guaranteed levels of income security, and

(II) the increased revenues required to achieve and maintain actuarial balance should and can be derived from recourse to some or all of a combination of measures, including the extension of coverage to state and local government workers not now participating in Social Security, fuller taxation of Social Security benefits as part of beneficiaries' federal income tax obligations, increases in the taxable wage base for both employers and employees, accelerated phasing in of the planned normal retirement age increase to age 67, acceptance of smaller cost-of- living benefit adjustments but only if justified by objective study and analyis, graduated increases in the Social Security taxable wage base (but not beyond 1% to the year 2060), and investment of a modest portion of Social Security trust funds in private equity and debt instruments to increase trust fund returns beyond historical rates.

Draft

Not approved by Bo

THE WHITE HOUSE

WASHINGTON

March 21 , 1996

MEMORANDUM TO THE PRESIDENT

From: Laura Tyson
Gene Sperling

Subject: Social Security Responses

I. DEVELOPING COMMON TALKING POINTS ON SOCIAL SECURITY: As you are aware, members of your Administration have recently had to respond to questions about the long-term solvency of Social Security. This has been driven by two occurrences: First, several Republicans, including Steven Forbes, have called for diverting a portion of Social Security to Individual Retirement Accounts or IRAs; second, and most prominent, there have been public reports -- and even a two-evening CBS evening news segment -- on the expected recommendations of the Social Security Advisory Council. As you recall, the Quadrennial Advisory Council on Social Security is an independent, bipartisan council which you appointed in 1994 to consider long-term issues related to the Social Security system -- specifically, which approaches are best to ensure solvency over a 75 year forecast period. We expect that the current Council will release a report in the near future. At that point, the Administration will review their options or recommendations.

Because of these events, we anticipate that Administration members may be asked to comment on the Social Security Advisory Council recommendations, and we want to ensure that we are speaking in one voice. We wanted to show you the current talking points, explain the policy and political goals behind them, and see what next steps or additional information you needed.

II. BACKGROUND ON LIKELY OPTIONS: As was reported in the January 19, 1996 Weekly Economic Briefing, recent estimates suggest that the total income, including interest on accumulated assets, will continue to exceed payments until 2020, and that the shortfall will be covered by drawing down assets until the trust fund is exhausted in 2030. Even after that, the revenues would meet about 75% of the program's costs. Under the current economic assumptions, the 75 year projection shows a deficit of 2.17% of taxable payrolls. Currently, the employee and employer each pay 6.2% -- or 12.4% cumulatively. The "2.17 deficit" refers to how much the 12.4% payroll taxes would have to be raised to maintain 75 year solvency. *It is a measurement figure and is meant by those who use it as a recommendation that any or all of the gap be filled by raising payroll taxes.*

Our current understanding is that no consensus recommendation will be reported from the Advisory Council, but that they will instead report three separate plans. The plans do have a few elements in common. While we can send you a full explanation of each option, we very briefly list below the main items that are considered in each plan. As you can see, this entire area is highly charged and controversial, and dealing with this issue will only be plausible if there is a non-political, bipartisan process.

The recommendations in all three options are:

- 0.5% increase/adjustment to the CPI.
- Expanding Social Security coverage to all new state and local employees now covered by Social Security.
- Increasing the extent to which Social Security benefits are counted as taxable income.
- Investing a portion of the Trust Fund in equities.

In addition to these common elements, the following elements are recommended by some of the members:

Option 1: This plan relies on the elements listed above and includes no private accounts.

Option 2:

- Raise the retirement age to 68.
- Reduce benefits for upper-income recipients.
- Require 1.6% increase in payroll taxes above the current amount and require this 1.6% be put into a private account.

Option 3: This is the largest move toward privatization.

- 5% of the payroll is put into a private IRA and managed by private investment companies that would fund annuities.
- The remaining 7.4% would cover a smaller, flat retirement benefit plus survivor's and disability benefits.

III. OPTIONS FOR GOING FORWARD:

As mentioned above, to ensure that the Administration was speaking in one voice, a working group of the NEC, DPC, Treasury, OMB, CEA and Labor Department has come up with suggested talking points. The talking points are attached, and we wanted you to see them to ensure that you feel we are on the right track.

The general feeling of many of those who put the talking points together was that the best policy and the best politics would be to make clear that we oppose efforts to privatize Social Security, undermine it, make it voluntary or less dependable, but then avoid giving definitive opinions on specific elements in specific proposals or define exactly what we feel constitutes "privatize," "undermine," or make "less dependable."

This approach makes clear that we are opposed to efforts that would privatize or make Social Security riskier -- that we are not recommending any of these elements. By not giving specific opinions on specific elements, we avoid being drawn into discussions on what changes we would need, while from a policy perspective, we do not unnecessarily take options off the table that could be part of a bipartisan recommendation next year.

Another option would be to take firmer positions against some of these provisions. The benefits of this would be that we would be unlikely to support some of these proposals and our strong opposition could be both an affirmative part of our 1996 agenda as well as insurance against anyone suggesting that we would support such provisions. The downsides to a harder approach are that once we criticize too many elements, it could create pressure to answer "what do we propose," and from a policy perspective, we could serve to take too many options off the table. [Two specific issues that need thought: we have heard you may wish to take equity investment off the table. Furthermore, you opposed raising the Social Security age in October, 1994.] The other problem may be that when we take certain options completely off the table, does it leave the impression that the ones we don't specifically oppose are ones that we are considering?

A third option is to consider recommending a bipartisan commission for 1997. This could provide a process answer to the Social Security issue, yet it could also raise the profile of the issue and be seen as recommending a commission to follow-up on a commission.

In terms of how to proceed, please consider the following options, which are not mutually inclusive:

1) Use current talking points with your edits.

2) Take a clear stance against some of the proposals.

3) Receive serious pros and cons of the specific elements in the Social Security recommendations from your economic team, with a possible follow-up discussion.

4) Look at options for proposing a commission.

5) Set up meeting to discuss matters with policy advisors following pro-con memo.

TALKING POINTS ON SOCIAL SECURITY
March 21, 1996

Q: What is the Administration's position on these recommendations?

A: Social Security is one of our most successful programs. It is the bedrock of retirement for tens of millions of Americans. A Social Security check is all that keeps 13 million older Americans from poverty. Social Security has helped cut elderly poverty by more than half since the 1960s. In 1966, the poverty rate among our older Americans was 28.5 percent; today, it is 11.7 percent.

Oppose Privatization or Undermining Current Social Security System: The Administration strongly opposes efforts to move Social Security toward a private or voluntary system that would not provide the same true security in the future that it has provided for millions of older Americans over the last several decades.

Need Non-political, Bipartisan Review of Overall Steps Needed To Continue Long-term Viability of Social Security: Although Social Security will remain on firm financial footing for many years, we agree that steps will have to be taken to ensure its long-term solvency. Any specific steps must be judged within the context of an overall, bipartisan, non-political effort to secure Social Security. Commenting now on specific options that might be part of these overall steps would be counterproductive.

Q: Does the Administration support the proposals by Forbes and others to allow people to use a portion of their payroll tax to set up their own IRAs?

A: These are proposals that the Administration has not supported and is not currently considering. We will not support proposals that would lead to the privatization of Social Security or undermine its dependability. Our general position is not to comment on hypothetical elements of any future overall proposal, but to encourage a strong bipartisan process for devising a plan to continue the broad national support that exists for our current Social Security program.

Q: Would the Administration ever consider any proposal that allowed people to use part of Social Security in private savings accounts -- as even Senator Kerrey has supported?

A: We oppose proposals that seek to privatize Social Security or make it voluntary. Yet, as mentioned before, our general position is not to comment on hypothetical elements of hypothetical proposals or to discuss exactly which proposals constitute privatization and which don't. Our general position is that we oppose privatization of Social Security and that we want this discussion to take place in a non-political context where elements are being judged in the context of overall bipartisan plans.

Q: But there are serious problems with Social Security. Is the President going to have recommendations this year on how he would handle this? Isn't it irresponsible for him not to address these recommendations during the Presidential campaign?

A: As the President has long said, there are long-term financing concerns, and they need to be dealt with in a bipartisan context in the most non-political atmosphere possible.

We Have Time. This Shouldn't Be Part Of Election-Year Politics. The Social Security system is sound well into the next century; it will be able to pay benefits <u>through the year 2030</u>. Ensuring the long-term solvency of Social Security is a <u>complicated and important issue</u>. We should take advantage of the time we have to address it in a reasoned, rational, and bipartisan manner. It should <u>not</u> be caught up in election-year politics. This year's Congress would do well to focus on the urgent issues before it, such as balancing the budget, welfare reform, and health care insurance reform.

Q: Does the Administration support proposals to allow Social Security funds to be invested in the stock market in order to bring the Social Security system higher returns?

A: As we said, we will oppose proposals that undermine the current publicly managed and collective nature of Social Security or proposals that would make it less dependable for all Social Security recipients. There are some very serious questions that would have to be answered before any of these proposals could be recommended. Again, we believe the best way for this discussion to take place is in a bipartisan, non-political context where we are looking at the viability of the whole plan and not have debate over hypothetical elements in the middle of an election year.

FAX COVER

Date/Time:

Income Maintenance Branch

Executive Office of the President
Office of Management and Budget
Washington, DC 20503

TO: Molly Brostrom

FROM: Désirée Filippone

Fax Destination

Organization: DP

Fax Number: 6-7431

Number of Attached Pages: *Cover +* 1

Notes:

The numbers are not important on top. Look at small print.

MBEI = Ball
1.6% = Gramlich
5% = Weaver

Income Maintenance Fax Number: 202/395-0851
Voice Confirmation: 202/395-4686

Table 1A. C[illegible]arison of OASDI Cost Rates, Income Rates, Annual Balances, and Combined Trust Fund Ratios for Present Law and Advisory Council Options (April 12, 1996) With Reduced CPI*

Year	Annual Balances (Tax Income - Cost)/Payroll: Present Law (2.3% Int)	MBEI Proposal (4.175Int)	1.6% IA Proposal (2.3% Int)	5% PSA Proposal (2.3% Int)	Trust Fund Ratios (Assets/Annual Cost): Present Law (2.3% Int)	MBEI Proposal (4.175Int)	1.6% IA Proposal (2.3% Int)	5% PSA Proposal (2.3% Int)
2000	0.98 %	1.27 %	1.16 %	-1.95 % -0.12	192 %	196 %	193 %	142 %
2010	0.63	1.54	1.57	-0.33	286	371	341	120
2020	-1.78	-0.36	0.27	-0.13	236	466	413	121
2030	-3.79	-2.21	-0.92	-0.36	53	448	385	122
2040	-3.88	-2.45	-0.41	-0.43	--	415	384	120
2050	-4.00	-1.11	-0.18	-0.20	--	424	417	122
2060	-4.74	-1.88	-0.53	-0.15	--	448	430	117
2070	-5.21	-2.35	-0.70	-0.05	--	452	432	110
1995-2069	-1.86	0.24	0.40	0.01				

Annual Cost Rates (Cost/Payroll)

Year	Present Law	MBEI Proposal	1.6% IA Proposal	5% PSA Proposal
2000	11.66 %	11.56 %	11.69 %	11.72 %
2010	12.07	11.66	11.61	10.90
2020	14.65	13.93	12.91	10.27
2030	16.85	15.98	14.15	10.15
2040	17.02	16.26	13.59	9.12
2050	17.19	16.56	13.33	8.29
2060	18.00	17.43	13.69	8.19
2070	18.52	17.97	13.87	8.20
1995-2069	15.12	13.80	13.03	10.11

Annual Income Rates (Tax Income/Payroll)

Year	Present Law	MBEI Proposal	1.6% IA Proposal	5% PSA Proposal
2000	12.64 %	12.85 %	12.85 %	9.77 %
2010	12.70	13.17	13.17	10.58
2020	12.87	13.56	13.18	10.14
2030	13.06	13.76	13.23	9.80
2040	13.14	13.81	13.18	8.70
2050	13.19	15.45	13.15	8.09
2060	13.26	15.55	13.17	8.04
2070	13.30	15.62	13.18	8.15
1995-2069	13.26	14.04	13.42	10.12

Ball MBEI (Maintain Benefits, Equity Investment) Proposal
Cover new hire State and local after 1997.
Increase benefit computation years to 38 by 1999.
Tax benefits like other contributory pensions.
Phase out $25,000/32,000 thresholds.
Redirect tax on benefits from HI to OASDI, phase 2010-2019.
Invest 40% of assets in equities by 2014, (start in 2000).
Increase payroll tax by 0.8 each in 2045.

* Based on intermediate assumptions from the 1995 Trustees Report, except that CPI is assumed to be reduced by 0.1% for the December 1996 COLA and by 0.21% for December 1997 and later COLAs. Nominal interest and wage are unaffected. Real interest rates shown in () do not reflect change in CPI.

Office of the Actuary / Social Security Administration
April 12, 1996

Proposal Provisions

1.6 % IA (Individual Account) Proposal – Gramlich
Increase NRA to 67 (2mos per yr) by 2011, index thereafter, keep EEA at 62.
Modify PIA formula : - Primary Ins Amt
Reduce the 0.32 and 0.15 factors in the formula
by 0.5 percent (multiply by 0.995) for 1998-2011,
by 1.5 percent (multiply by 0.985) for 2012-2030.
Factors for 2030 and later, 0.224 and 0.105
Increase benefit computation years to 38 by 1999.
Change benefits for spouses of retired and disabled workers to 33% of PIA.
Pay Surviving spouse MAX(ownPIA, spousePIA, 75 percent of benefits payable to couple alive).
Cover new hire State and local after 1997.
Tax benefits like other contributory pensions.
Phase out $25,000/32,000 thresholds.
1.6% additional employee contribution to IA starts 1998.

5% PSA (Personal Security Account) Proposal – Weaver
Increase NRA to 67 (2mos per yr) by 2011, index NRA thereafter, raise EEA up to 65.
DI conversion at age 65.
Pay DIB the % of PIA for retired worker becoming entitled at age 65, but not less than 70%.
Replace PIA formula with :
No change for disabled workers up to age 65 or for young survivors.
Flat benefit for retired workers under 55 in 1998 ($426 for 1996 eligibles, reduced if less than 35 years of earnings, and prorated if over 25 in 1998)
Past service credits thru 1997, wage-indexed to year of eligibility, for age 25-54 in 1998.
5% PSA contribution for those under 55 in 1998.
Change benefits for spouses of retired to half of flat ultimately, 33% for spouses of disabled workers.
Pay Surviving spouse MAX(ownPIA, spousePIA, 75 percent of benefits payable to couple alive).
Cover new hire State and local after 1997.
Benefits subject to tax: 50% of DI after 1997, 100% of flat ben, 50% of past service credits, & 50% of benefits for over 54 in 1998. PSA benefits not taxed.
Phase out $25,000/32,000 thresholds.
Phase out earnings test at NRA.
Raise tax by 0.76 each for 1998-2069.
Redirect 5% of ee pyrl tax to PSA for under 55 in 1998.
Borrow from Treasury to cover additional transition costs beginning 2002, repay Treasury by 2069.

EEA - Earliest Eligible Age

PIA
AME - Avg Monthly Earnings - 3 bend points
<12 → 70-90% of the back
12-32 → 32%
32-62,000 → 15%

DI - Discourages applying for disab in order to maintain full ret'ment
- encourage pple to continue wk

Widowed spouses → currently 100% → Weaver/Gramlich → change to 75%
2-earner couple ⇒ 1.5
1-earner couple ⇒

Replacement Rates: estimate of ~~how much~~ what % of last salary the current benefit is

1995
- Low earner : 56%
- ~~Avg~~ : 42%
- Max. : 28%

Bend Pts
- <12 → 70-90% of ~~the~~ contribution back
- 12-32 → 32%
- 32-60,000 → 15%

* Partially-funded
* System ~~more~~ more generous now – e.g. ↑ age to 67; we pay more in

OASI – 37M (includes survivors – 11M)
DI – 5M (disabled)

Los Angeles Times Friday, March 15, 1996

PERSPECTIVE ON THE BUDGET

A Fair Flat Tax to Rally Behind

Get rid of the high-earner exemption in the Social Security tax; cut the rate but apply it to all earned income.

By MICHAEL DUKAKIS

Steve Forbes hoped to ride into the White House on a flat income tax with a low-earner exemption. He apparently had a lot of company, at least on the Republican side of the street.

Of course, when you look at it closely, the flat tax is nothing more than another attempt to give a huge tax break to wealthy taxpayers like Forbes. But it sounded good, at least when he first proposed it, and it transformed him, at least temporarily, into a serious challenger for the Republican nomination.

Suppose, however, that a candidate for the presidency ran on a plan for a flat tax with a high-earner exemption. We'd think he was out of his mind.

Yet that's exactly how the Social Security tax works. We pay a flat tax of 6.2% on every dollar we make, up to $62,700. All wages above that are tax-exempt.

The high-earner exemption is as regressive as it sounds. And it's taking a huge chunk out of the wages of average working Americans. A worker making $60,000 a year pays eight times the rate paid by someone pulling in a half-million a year and 80 times the rate paid by someone making $5 million a year. To put it another way: A $60,000 earner pays 6.2% on all her earnings; a $500,000 earner pays the 6.2% on the first $62,700, which is 0.78% of all his earnings, and the earner of $5 million pays the same, which is 0.078% of his earnings.

It's bad enough that working middle-class Americans are feeling less and less secure. For those lucky enough to still have a job in these days of massive corporate downsizing, the Social Security tax is the unkindest cut of all.

'More than half the people in this country pay more in Social Security taxes than they do in income taxes.'

In fact, more than half the people in this country pay more in Social Security taxes than they do in income taxes. And you can bet they aren't among the wealthiest 20% to whom virtually all income growth has gone since 1980.

What can we do about it? It's as simple as it is common sense. Get rid of the high-earner exemption, cut the Social Security tax rate and apply it to all earned income—just what the flat-taxers say they want to do to the income tax.

If we made this one move, the Social Security flat tax rate would decrease by 12%. Everyone earning less than $82,000—that's more than 97% of American workers—would get a tax break. It wouldn't increase the federal deficit one dime. But it would eliminate the necessity for the kind of tax cut that budget negotiators are wrestling with, which would add billions to the deficit.

Lower taxes for the overwhelming majority of working Americans. Heightened fairness. A fiscally responsible tax cut for the middle class. These are the goals that all fair-minded Republicans and Democrats should be able to support.

Of course, people like Steve Forbes would have to pay the same rate as the rest of us. But wasn't that the principle behind the flat tax in the first place?

Michael Dukakis was the Democratic nominee in the 1988 presidential election and served three terms as governor of Massachusetts. He is currently a visiting professor at UCLA's School of Public Policy and Social Research.

Nelson:

Keep in touch-- and keep slugging.

MSD

LOS ANGELES TIMES

SUNDAY, JULY 9, 1995

TIMES BOARD OF ADVISERS / ROBERT EISNER

Kerrey-Simpson Package Would Destroy Social Security Benefits

Politicians with axes to grind frighten us with tales of the Social Security system going bankrupt. By the year 2030, we are told, retirees will not be able to get all of their promised benefits.

The latest in that genre—Sen. Bob Kerrey (D-Neb.) and Sen. Alan K. Simpson (R-Wyo.)—promote their new package of bills in Congress, which would cure the system with major amputation. In the process, they would deprive the elderly of a major part of their retirement income, threaten the security of what is left and injure the economy for all.

The issue is not the presumed balances in the Social Security trust fund. There are indeed no piles of $100 bills in the fund waiting to be paid out. The money is essentially an accounting fiction, entries in computers that can easily be replaced by new fictions, new entries in computers. For example, if the trust fund—currently financed by our payroll taxes and "interest" on the accumulated balances—were short, we could simply double the rate of interest that the Treasury credits to existing fund balances, or credit, for example, 10% of our income taxes to those funds, in addition to the payroll taxes that already go there. Presto! Balance—indeed, surplus—now and forever.

Conversely, of course, if the economy were no longer producing, perhaps because of a war that destroyed our productive facilities, the balances in the trust fund would not do the elderly—or anybody else—any good.

A *real* issue is the declining ratio of young working people to elderly retired people that we can expect in the decades ahead. For the nation as a whole, a trust fund, governmental or private, will not feed those not working. We cannot eat checks or currency. Somebody must work to bake the bread that those not working wish to eat. And those working must be willing to give or be coerced into giving those not working an appropriate share of that bread.

The declining ratio of young workers to elderly retirees will be balanced somewhat by the projected decline in the proportion of non-working children. Thus, the ratio of workers to non-workers will not decline as much as some fear mongers imply. And to the extent to which it does decline, there are remedies.

One, rarely mentioned, is to encourage people to have more children who will be working in the year 2030. Aside from the coercion of limiting the use of contraceptives or of choice regarding abortion, this might entail allowances or tax credits for children and government provision for child care from the earliest ages. The latter would have the added advantage of encouraging more women to enter the labor force.

Another remedy would be the encouragement, rather than the limitation, of immigration. Most immigrants come here looking for work. They and their offspring would swell the work force for decades.

We might also think again about our tolerance of unemployment, whether structural or due to misguided efforts to slow the economy in the interest of fighting inflation. Prosperity—along with education and training programs that make all of our population productive members of society—would go a long way; they'd even swell that trust fund, for whatever that is worth.

And without forcing the elderly to work, we could remove governmental impediments to their working. We might look again at the provision whereby Social Security benefits are delayed for those who chose to work between the ages of 62 and 70 and have significant earned income.

ROBERT EISNER *is William R. Kenan professor emeritus of economics at Northwestern University in Evanston, Ill. He is the author of "The Misunderstood Economy: What Counts and How to Count It."*

The Kerrey-Simpson proposal would accomplish few or none of these fundamental improvements. Rather, it would drastically reduce benefits in the name of "saving" them.

- It would immediately cut 0.5% from the cost-of-living index each year, so that in five years benefits would be down by 2.5% per year, by establishing a commission that might bring about even greater cuts. If the 0.5% cuts were continued, in 20 years that would mean a reduction of about 10% in benefits.
- An even more severe cut would be imposed by limiting cost-of-living adjustments for the top 70% of benefit recipients to the amounts received by those in the 30th percentile. This would have the insidious effect of converting Social Security from an entitlement for all who contribute into a program giving full benefits only to the poor. That would gravely endanger its mass, middle-class political support.
- The Kerrey-Simpson proposal would permit—and in one bill, mandate—employees to divert two percentage points—almost a third—of their 6.2% payroll contributions to private investment funds, a step that would immediately drive the Social Security trust fund sharply into the red. It would also have the fund invest 25% of its assets in corporate equities—a new move toward socialism? These changes would subject a significant part of retiree benefits to the uncertainty of the stock market, sharply cut federal revenues and increase outlays. Would this new imbalance be corrected by increases in income tax rates or further drastic cuts in programs for education, research, health and everything else? Do we really want either?
- Kerrey and Simpson would sharply reduce benefits for the baby boom generation and their children by gradually increasing the age of full eligibility, now 65, from the already legislated 67 to all of 70 years. Given normal life expectancies, this would prevent millions of Americans—particularly middle-class men—from ever receiving benefits.

The fundamental theme of the Kerrey-Simpson proposal—that it is a move from "a consumption-based system into a system that encourages saving and retirement"—is fallacious. Kerrey and Simpson would do nothing for national saving and investment; it's not clear that their plan would increase private saving, and they would only increase public dissaving by forcing the government to borrow more from private investors.

The way to "save Social Security" is to ensure—as I believe is ultimately likely—that in the decades ahead our economy will grow vigorously. Our working population will then be sufficiently prosperous to be happy—as they have been for more than half a century—to accord their parents and grandparents the security they have every right to expect. Meanwhile, our Social Security system, arguably the most efficient insurance system of any kind in the world, ain't broke. Let's not fall for schemes to take it apart in the guise of "saving" it.

OPTIONAL FORM 99 (7-90)
FAX TRANSMITTAL # of pages ▶ 4
To Shirley From Phil

Important numbers for COLA Interviews

o 2.9 [redacted] percent increase

o ~~[redacted] lowest in 11 years (1.3 percent in 1/87)~~ largest increase since 1993 → 1996 2.6, 1995 2.8, 1994 2.6, 1993 3.0

o Affects 44 [redacted] million Social Security beneficiaries and 6.5 million SSI recepients

o Average monthly benefit for a retiree increases from [redacted] $724 to [redacted] $745 + 21.00

o SSI maximum individual rate climbs from $[redacted] $470/mo. to $[redacted] $484/mo + 14.00

o ~~Medicare Part B premium reduced from $46.10/mo to $42.50/mo.~~

o Increase based on CPI-W increase from 3rd quarter of [redacted] 1995 to 3rd quarter of [redacted] 1996; automatic each year since 1975

o First year cost of COLA (increased benefit payments) [redacted] $10.1 B billion T.H.L. II

Doesn't influence long term sol. bec factored in

o SSA also announced increased wage base upon which earnings subject to Social Security tax from $[redacted] $62,700 to $[redacted] to $65,400

o Only affects 7 [redacted] percent of American workers ([redacted] million out of the [redacted] 144 million paying into Social Security)

o Social Security pays benefits as follows:
- Retirement program--[redacted] million beneficiaries -> 31
  Disability program--[redacted] 6 million beneficiaries -> 6
  Survivors program--[redacted] 7 million beneficiaries -> 7

(About 4 [redacted] million children collect benefits under the three programs.)

o Small COLA represents low inflation which translates into good news for the elderly and disabled for live on fixed incomes

o Were it not for Social Security, the poverty rate for older Americans would be over 50 percent instead of 13 percent

o For 15 million people, Social Security is the barrier that separates them from poverty

ABC - Tom DeBacco 202-222-7600
Radio

Roger Hall

Wednesday, October 16, 1996
For Immediate Release

Phil Gambino / Tom Margenau
410-965-8904 Fax 410-966-9973

News Release
SOCIAL SECURITY

Statement of Shirley S. Chater
Commissioner of Social Security

1997 Cost-of-Living Adjustment to Social Security Benefits

The continuation of low inflation is good news for all Americans, particularly for those, such as the elderly and disabled, living on fixed incomes.

This marks the 23rd consecutive year that the inflation-adjusted automatic cost-of-living increase has contributed to greater economic security for those receiving Social Security benefits.

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL # of pages ▶ 1

To Shirley	From Phil
Dept./Agency	Phone #
Fax #	Fax #

NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

News Release
SOCIAL SECURITY

FOR IMMEDIATE RELEASE
Wednesday, Oct. 16, 1996

Phil Gambino or Tom Margenau
(410) 965-8904 (202) 482-7145

1997 SOCIAL SECURITY CHANGES ANNOUNCED

Social Security Commissioner Shirley S. Chater announced today that Social Security and Supplemental Security Income benefits will increase 2.9 percent, beginning with the payments that Social Security beneficiaries receive Jan. 3 and SSI recipients receive on Dec. 31. The automatic cost-of-living adjustment is made annually.

For Social Security beneficiaries, the average monthly benefit amount for all retired workers will rise from $724 to $745. The maximum federal SSI monthly payments to an individual will rise from $470 to $484. For a couple, the maximum federal SSI payment will rise from $705 to $726.

Social Security and SSI benefits increase automatically each year based on the rise in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of one year through the corresponding period of the next. This year's increase in the CPI-W was 2.9 percent.

# # #

NOTE TO CORRESPONDENTS: A fact sheet showing the effect of the various automatic adjustments is attached.

Fact Sheet

SOCIAL SECURITY
Shirley S. Chater, Commissioner

Phil Gambino or Tom Margenau
(410) 965-8904 (202) 482-7145

1997 SOCIAL SECURITY CHANGES

o **Cost-of-Living Adjustment (COLA):**

Based on the increase in the Consumer Price Index (CPI-W) from the third quarter of 1995 through the third quarter of 1996, Social Security beneficiaries and Supplemental Security Income (SSI) recipients received a 2.9 percent COLA for 1997. Other important 1997 Social Security information is as follows:

	1996	1997
o **Tax Rate:**		
Employee	7.65%	7.65%
Self-Employed	15.30%	15.30%

NOTE: The 7.65% represents the combined Social Security and Medicare tax rate. The Social Security portion (OASDI) is 6.20% on wages up to the applicable maximum taxable amount (see below). The Medicare portion (HI) is 1.45% on all wages.

	1996	1997
o **Maximum Earnings Taxable:**		
Social Security (OASDI only)	$62,700	$65,400
Medicare (HI only)	No Limit*	

*The maximum was eliminated by the "Omnibus Budget Reconciliation Act of 1993."

	1996	1997
o **Quarter of Coverage:**	$640	$670

o **Retirement Earnings Test Exempt Amounts:***

Age 65 thru 69	$12,500/yr. ($1,042/mo.)	$13,500/yr. ($1,125/mo.)
Under age 65	$ 8,280/yr. ($690/mo.)	$ 8,640/yr. ($720/mo.)

*NOTE: For people age 65 through 69, the exempt amounts for both 1996 and 1997 were established by legislation enacted March 29, 1996. For people in this age group, $1 in benefits will be withheld for every $3 in earnings above the limit. For people under age 65, $1 will be withheld for every $2 in earnings above the limit.

o **Maximum Social Security Benefit: Worker Retiring at Age 65 in January of 1996 and 1997:**

	$1,248/mo.	$1,326/mo.

o **SSI Federal Payment Standard:**

Individual	$470/mo.	$484/mo.
Couple	$705/mo.	$726/mo.

o **SSI Resources Limits:**

Individual	$2,000	$2,000
Couple	$3,000	$3,000

o **Average Monthly Social Security Benefits: Before and After the December 1996 COLA:**

	Before 2.9% COLA	After 2.9% COLA
All Retired Workers	$ 724	$ 745
Aged Couple, Both Receiving Benefits	$1,220	$1,256
Widowed Mother and Two Children	$1,436	$1,478
Aged Widow(er) Alone	$ 687	$ 707
Disabled Worker, Spouse and One or More Children	$1,136	$1,169
All Disabled Workers	$ 684	$ 704

# of SocSec Beneficiaries

Table II.H2.—OASI Beneficiaries With Monthly Benefits in Current-Payment Status as of December 31 by Alternative, Calendar Years 1945-2070

[In thousands]

	Retired workers and auxiliaries			Survivors				
Calendar year	Worker	Wife-husband	Child	Widow-widower	Mother-father	Child	Parent	Total
Historical data:								
1945	518	159	13	94	121	377	6	1,288
1950	1,771	508	46	314	169	653	15	3,477
1955	4,474	1,192	122	701	292	1,154	25	7,961
1960	8,061	2,269	268	1,544	401	1,577	36	14,157
1965	11,101	2,614	461	2,371	472	2,074	35	19,128
1970	13,349	2,668	546	3,227	523	2,688	29	23,030
1975	16,588	2,867	643	3,889	582	2,919	21	27,509
1980	19,562	3,016	639	4,411	562	2,610	15	30,814
1985	22,432	3,069	457	4,863	372	1,917	10	33,120
1986	22,987	3,088	450	4,931	350	1,875	9	33,690
1987	23,440	3,090	440	4,984	329	1,836	8	34,126
1988	23,858	3,086	432	5,029	318	1,810	7	34,539
1989	24,327	3,093	423	5,071	312	1,780	6	35,012
1990	24,838	3,101	422	5,111	304	1,776	6	35,559
1991	25,289	3,104	426	5,158	301	1,791	5	36,074
1992	25,758	3,112	432	5,205	294	1,808	5	36,614
1993	26,104	3,094	436	5,224	289	1,837	5	36,990
1994	26,408	3,066	440	5,232	283	1,865	4	37,298
1995	26,673	3,026	442	5,226	275	1,884	4	37,529
Intermediate:								
1996	26,982	3,017	448	5,263	277	1,916	4	37,907
2000	28,125	2,976	463	5,331	279	2,002	3	39,178
2005	30,115	2,922	476	5,447	271	2,055	2	41,288
2010	33,945	2,735	548	5,540	252	1,960	3	44,984
2015	40,166	2,503	619	5,635	236	1,865	3	51,026
2020	47,443	2,460	694	5,725	230	1,824	3	58,380
2025	53,902	2,490	744	5,798	231	1,815	3	64,982
2030	58,993	2,487	773	5,823	229	1,811	3	70,119
2035	61,952	2,448	791	5,826	225	1,799	3	73,044
2040	62,896	2,371	793	5,818	219	1,780	3	73,880
2045	63,573	2,345	801	5,835	214	1,755	3	74,526
2050	64,894	2,367	811	5,842	210	1,734	3	75,860
2055	67,028	2,456	834	5,848	206	1,714	3	78,088
2060	69,292	2,548	851	5,837	202	1,692	3	80,426
2065	71,034	2,614	860	5,855	197	1,670	3	82,233
2070	72,479	2,659	865	5,906	193	1,648	3	83,754
Low Cost:								
1996	33,250	2,620	552	5,509	256	2,094	3	44,284
2000	39,109	2,347	629	5,610	242	2,083	3	50,023
2005	45,941	2,270	716	5,724	232	2,118	3	57,005
2010	51,896	2,269	781	5,819	233	2,181	3	63,182
2015	56,328	2,234	827	5,850	235	2,249	3	67,727
2020	58,603	2,171	864	5,831	237	2,302	3	70,012
2025	58,974	2,084	884	5,775	238	2,334	3	70,292
2030	59,282	2,054	913	5,737	240	2,365	3	70,594
2035	60,312	2,069	948	5,697	244	2,407	3	71,680
2040	62,216	2,143	996	5,681	249	2,455	3	73,743
2045	64,257	2,212	1,037	5,683	254	2,502	3	75,948
2050	65,987	2,265	1,069	5,738	258	2,545	3	77,865
2055	67,737	2,313	1,098	5,840	261	2,588	3	79,841
2060	33,250	2,620	552	5,509	256	2,094	3	44,284
2065	39,109	2,347	629	5,610	242	2,083	3	50,023
2070	45,941	2,270	716	5,724	232	2,118	3	57,005

+6.1M = 44M

+ 11.3 = 81.4M

* year babyboomers all reach 65

Harry Ballantyne, SSA Chief Actuary said figure was 43.5M @ end of June.

Table II.H3 shows the projected number of beneficiaries under the DI program by type of benefit.

Table II.H3.—DI Beneficiaries With Monthly Benefits in Current-Payment Status as of December 31 by Alternative, Calendar Years 1960-2070

[In thousands]

Calendar year	Disabled worker	Auxiliaries		Total
		Wife-husband	Child	
Historical data:				
1960	455	77	155	687
1965	988	193	558	1,739
1970	1,493	283	889	2,665
1975	2,489	453	1,411	4,352
1980	2,859	462	1,358	4,678
1985	2,656	306	945	3,907
1986	2,727	301	965	3,993
1987	2,786	291	968	4,045
1988	2,830	281	963	4,074
1989	2,895	271	962	4,129
1990	3,011	266	989	4,266
1991	3,195	266	1,052	4,513
1992	3,468	271	1,151	4,890
1993	3,726	273	1,255	5,254
1994	3,963	271	1,350	5,584
1995	4,185	264	1,409	5,858
Intermediate:				
1996	4,429	233	1,458	6,121
2000	5,391	239	1,600	7,230
2005	6,650	262	1,789	8,702
2010	7,888	268	1,735	9,891
2015	8,612	259	1,692	10,563
2020	8,926	263	1,659	10,848
2025	9,292	285	1,671	11,248
2030	9,289	287	1,701	11,277
2035	9,242	283	1,728	11,253
2040	9,408	279	1,750	11,437
2045	9,921	291	1,767	11,978
2050	10,222	298	1,782	12,302
2055	10,424	307	1,802	12,533
2060	10,370	307	1,818	12,496
2065	10,408	307	1,833	12,548
2070	10,556	310	1,846	12,712
Low Cost:				
1996	4,378	231	1,441	6,049
2000	5,035	224	1,508	6,767
2005	5,841	232	1,595	7,668
2010	6,747	217	1,515	8,479
2015	7,154	197	1,462	8,813
2020	7,289	188	1,443	8,920
2025	7,517	197	1,479	9,193
2030	7,490	194	1,540	9,225
2035	7,456	190	1,599	9,245
2040	7,613	188	1,647	9,448
2045	8,056	197	1,698	9,950
2050	8,361	204	1,755	10,320
2055	8,629	213	1,822	10,663
2060	8,758	217	1,887	10,862
2065	9,015	222	1,951	11,188
2070	9,372	229	2,014	11,614

SOCIAL SECURITY

Office of the Commissioner

April 21, 1995

Memorandum for LeeAnn Inadomi and Molly Brostrom

FROM: **Brian Coyne**
Social Security Administration

RE: **WHITE HOUSE CONFERENCE ON AGING**

DATE: **April 21, 1995**

Attached, please find our summary of agency accomplishments and initiatives on issues of concern to seniors which was sent to White House Cabinet Affairs a few weeks back. Since this document was sent, I would like to update a few items. Below, please find my comments to supplement the previous document:

1) **Independent Agency.** The Social Security Administration officially became an independent agency on March 31, 1995. As an independent agency, Social Security will have increased visibility and accountability in the policy-making process. It will also provide greater opportunities to develop stronger bipartisan relationships between Republicans and Democrats as well as between the Executive and Legislative Branches on issues affecting Social Security. Creating a strong bipartisan climate on issues affecting Social Security is critical to the long-term success of the program.

2) **Reinventing Government (REGO II).** The Vice President announced a package of initiatives for reinventing the Social Security Administration. The proposals included, among other items, that all future beneficiaries would receive their monthly checks on staggered dates. Presently, all beneficiaries receive checks on the third of each month. This creates tremendous peak workloads for the agency and makes it difficult for the agency to provide world-class service. Recognizing that current beneficiaries count on their check on the third of each month, there will be no change in payment dates for these beneficiaries unless they volunteer to change their payment date. Other initiatives of interest to seniors include phasing in direct deposit of benefit payments which will lessen the number of lost or stolen checks; and allowing personnel offices of large companies to provide one-stop shopping for the filing for retirement and Medicare benefits as part of their filing for company pension benefits.

3) **Social Security and Medicare Trustees Report.** On April 3, 1995, the Social Security and Medicare Board of Trustees issued their annual report on the status of the trust funds. The reports stated that there are adequate funds in the Social Security Trust Funds to pay full benefits through 2030, or 35 years from now. This is an increase of one year over last year's report, which projected that there were sufficient funds through 2029. The Trustees also stated that the Hospital Insurance Trust Fund (Medicare) would be unable to pay full benefits after 2002, or seven years from now. The Trustees recommended that an Advisory Council on Medicare be established to study and make recommendations on the Medicare Trust Funds.

4) **Advisory Council on Social Security.** The Advisory Council on Social Security was appointed by Secretary Shalala last year and charged with making recommendations on how to restore long-range solvency to the Social Security Trust Funds. The Council is composed of a diverse range of viewpoints and is chaired by former Acting Congressional Budget Office Director Ned Gramlich. The Council is expected to release its report by September of this year.

5) **Retirement Earnings Test.** The House of Representatives recently passed legislation which would raise the retirement earnings test exempt amount to $30,000 over a five year period. Currently, it is at $11,280. The retirement earnings test exempt amount is the amount of money a beneficiary between 65 and 69 may earn before his/her Social Security benefits are reduced. The House proposed to pay for this change through phasing out the tax on 85 percent of Social Security benefits to 50 percent of benefits over this five year period. The increase in the amount of benefits subject to taxation from 50 to 85 percent was part of the President's 1993 Economic Stimulus Package. These additional revenues presently go the Medicare Trust Funds, but would revert to the Social Security Trust Fund during the phase out period. According to HCFA actuaries, the House proposal would move the insolvency date of the Medicare Trust Fund, presently at 2002, up by eight months.

6) **Personal Earnings and Benefits Estimate Statement (PEBES).** The Social Security Administration began mailing in February Personal Earnings and Benefits Estimate Statements to all individuals 60 years of age or older who are not currently receiving Social Security benefits. An estimated 9 million statements will go out between February and October of this year. In 1999, 123 million statements will be mailed to all workers 25 years or older. These statements are required by legislation passed by Congress in 1989. Senator Moynihan has been the primary sponsor of this mailing which is designed to educate people about Social Security benefits and to improve public confidence in the program. The statements detail an individual's earnings record and estimate the benefits a worker (and family) may be eligible for under the retirement, survivors and disability programs.

THE WHITE HOUSE

WASHINGTON

August 10, 1995

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: Molly Brostrom
Domestic Policy Council

RE: Background on Current Social Security Issues

This memorandum provides background on a few current Social Security issues. The information is purely for background purposes; we do not anticipate your needing to address any of the issues during tomorrow's press conference.

Chater Confirmation
Sen. Packwood is currently holding up Commissioner Chater's confirmation, demanding that the Administration first lay out options for addressing long term solvency of the Social Security trust fund. (Shirley Chater was confirmed in October 1993 to head HHS' Social Security Administration. In accord with independent agency legislation, she was reappointed by the President in November 1994.) Her confirmation hearing was held in February 1995, but Sen. Packwood has held up her confirmation since then saying she is providing weak leadership. Under the independent agency legislation, however, Comm. Chater has full powers because she was previously confirmed.

Social Security Solvency
This year's annual report of the Board of Trustees of the Social Security and Medicare trust funds projected that the Social Security trust fund (the retirement and survivors benefits part) will remain solvent for the next 35 years, until 2030 (as you know, the projection for solvency for the Medicare part was much shorter -- 2002.)

While these projections of long term insolvency are not new or imminent, they have contributed to decreased confidence in the future of the program and have lead to calls for immediate attention to the Social Security solvency.

Administration Response
The Administration's position on long term solvency has been that the program is too important for options to be treated as a political football (Sen. Dole and Speaker Gingrich also believe it is premature to begin debating proposals). Thirty five years of solvency means we have time to carefully consider proposals that will impact the program for years to come.

All previous changes to the Social Security program have been preceded by analysis and recommendations from a bipartisan, independent council. Last year, Secretary Shalala asked the Social Security Advisory Council to focus on Social Security financing and to develop recommendations for improving the long-range financial status of the Social Security program. The Administration will carefully consider the recommendations of the Council, expected to be submitted to the President this fall. This Administration is committed to the Social Security program and the principles that have made it successful for 60 years.

Social Security Advisory Council.
The President's Advisory Council on Social Security is bipartisan and encompasses a wide range of views on Social Security. This diversity of opinion has lead some to question whether they will be able to reach a consensus on recommendations, particularly because of division on big issues such as increasing the retirement age or proposing additional revenues. The Council meets next at the end of August.

The primary proposals under consideration by the Council are:

1. A proposal that would make incremental changes in a number of different areas, including increased revenues, to provide fiscal balance for a 75-year period.

2. A proposal that would, among other things, replace the current benefit structure with one that provides a flat-dollar benefit at a level that would balance the system at the current payroll tax rate. The proposal would also allow a worker to contribute to an IRA-like savings plan, managed by an independent board, to supplement Social Security benefits. (Council Chairman Gramlich was rumored to be leaning toward this generally-considered more "conservative" proposal.)

3. A "double decker" proposal that would provide a flat benefit plus a benefit directly proportional to a worker's earnings (reportedly there is congressional interest in double decker plans).

4. A "middle ground" approach that would include elements of the three proposals.

Other Proposals
Sens. Simpson and Kerrey have been the primary Congressional proponents of immediate and radical steps on Social Security financing (as you may recall, they were members of the Kerrey-Danforth Entitlement Commission which reached an impasse last fall). They have introduced legislation proposal that would, among other things, channel 2% of the payroll tax into private investment accounts. In response to a hearing held by Sen. Simpson last week, Comm. Chater issued a statement explaining that SSA has concerns because, instead of supplementing Social Security, it substitutes money from an existing pool of trust fund dollars. The result is bad investments, lower benefits, and an increase in poverty (statement attached). The Simpson-Kerrey proposal would also cap Social Security COLAs and raise the retirement age to 70.

SSA REGO II
In April, the Vice President announced a set of reinvention initiatives for the Social Security Administration aimed at improving social security operations and achieving $900 million in savings. These initiatives include: cycling payment days to better distribute workload at SSA; improvements to 1-800 telephone service; increasing

direct deposit/electronic benefits transfer services; and improvements to the disability adjudication process. A proposal to eliminate SSA's role in the collection of attorney's fees has resulted in a slew of critical mail, primarily from attorneys. A proposal to consolidate regional offices from ten to five has met with some Congressional resistance. Details of REGO II recommendations are attached.

Attachments

cc: Carol Rasco
Jeremy Ben-Ami

THE FEDERAL PAGE

Plan Deepens Cuts For Future Retirees

Separate Social Security Panel Appears Split

By Spencer Rich
Washington Post Staff Writer

In search of ways to assure the solvency of government retirement programs for the elderly when the huge baby boom generation hits 65, lawmakers are reassessing the federal civilian and military retirement system.

Last week Sens. Bob Kerrey (D-Neb.) and Alan K. Simpson (R-Wyo.) introduced bills to trim future federal civilian and military retirement benefits and cut future Social Security benefits in order to ward off the projected insolvency of the nation's largest retirement program in 2030.

Without cutbacks, they said, the cost of these programs will rise so massively as to impose an enormous tax burden on future workers, "damning our children to a very grim future."

Their plan would reduce future pension accrual rates for both military and civilian employees of the federal government, restrain cost-of-living adjustments for all such retirees and Social Security recipients as well, base federal civilian pension amounts on the five highest years of earnings instead of three, and eliminate a bonus lump-sum retirement payment for military retirees now paid at age 62. The Kerrey-Simpson plan would reduce federal pensions dramatically more than proposals offered by the Senate Budget Committee would.

Meanwhile, a special Social Security Advisory Council named by the Clinton administration appears to be splitting into two factions. One is sympathetic to a plan developed by Chairman Edward Gramlich, former acting Congressional Budget Office director, that would cut future Social Security benefits.

The other group is more sympathetic to a proposal by former Social Security commissioner Robert Ball that would rely mainly on new taxes to support the system.

"I do it mostly on the benefit side and Bob does it on the tax side," said Gramlich. The council hopes to make recommendations by summer's end.

In place of the current benefit formula, Gramlich's plan would create a "double deck" system in which every person would get a basic benefit based solely on the number of years worked, regardless of how much he or she paid in. Everyone who worked 35 years would get a flat base benefit of $450 to $500 (in 1995 dollars) per month. A person who worked 10 years would get half that.

On top of that, everyone would get a second "deck," that is, an add-on equal to 15 percent of average wages earned over a lifetime. The net effect would be to leave future benefits for low-earning workers about where they are now, but sharply cut benefits for high earners.

The age at which a person can start drawing Social Security without any "early-retirement penalty" is now 65 but will rise under current law to 67 by 2027. Gramlich would raise this to 68 by 2018.

He also would eventually eliminate the spouse's benefit for future retirees. He would allow a person to put in extra money and buy an annuity from the government to boost the benefit amount. And he would require Social Security to invest 25 percent of its reserves in stocks on the theory this would bring a greater investment return than putting all its reserves into government bonds.

Ball's plan, by contrast, depends mostly on new revenue. The maximum wage on which the Social Security tax is levied, now $61,200, would be raised by $10,000 in two steps, producing more money. The payroll tax rate of 6.2 percent each on employers and employees would be raised to 6.4 percent. State and local workers not now covered by Social Security taxes would be covered. The amount of Social Security benefits subject to income tax would be increased.

Ball also would have Social Security invest one-third of its reserves in stocks to get a higher return. He proposed two cuts in benefits: basing the benefit formula on average wages over 38 years instead of 35 and phasing in the retirement age at 67 by 2019. He said raising the payroll tax by another 1 percent each on employers and employees in about 2050 would guarantee the system "in perpetuity."

Kerrey and Simpson would make Social Security changes similar to Gramlich's. They would gradually raise the no-penalty retirement age to 70 by 2029 and the early-retirement age to 65, reduce cost-of-living adjustments, allow a person to invest 2 percentage points worth of his or her own payroll tax privately in an IRA-like savings plan and reduce, but not eliminate, the spouse benefit.

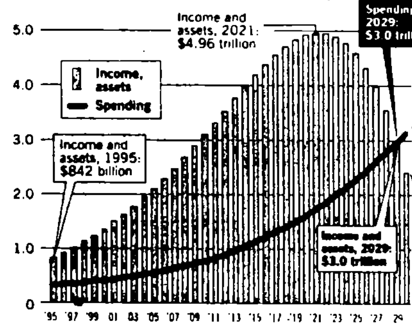
They also proposed various ways to slow the growth of federal and military retiree pensions. They would cut the annual rate at which federal employees accrue pension benefits by one-tenth of 1 percentage point. They would calculate federal employee pensions based on the top five years of income instead of the top three.

Contribution and accrual rates (and therefore benefit rates) for members of Congress and their staffs would be reduced to the same level as for executive branch employees under the federal employee retirement system revised 11 years ago.

In the military area, accrual of pensions would be calculated on the basis of a 2 percent credit for each year served, instead of rising to 3.5 percent year after 20 years. This would apply only to those people who joined the military after July 1, 1986.

RUNNING OUT OF MONEY

The Social Security program will be unable to pay all benefits fully in 2030, because income from taxes will be insufficient and reserves in the trust fund will be used up.



SOURCE: Social Security Administration

Sen. Alan K. Simpson would raise retirement age to 70 by 2029.

News Release

SOCIAL SECURITY

For Immediate Release

Contact: Phil Gambino (202) 482-7145

STATEMENT BY SHIRLEY S. CHATER
COMMISSIONER OF SOCIAL SECURITY

REGARDING PROPOSALS TO ALLOW WORKERS TO INVEST A PORTION OF THEIR FICA TAXES IN PRIVATE INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

While I encourage an honest and reasonable debate about options to address the long-term solvency of Social Security, we must carefully consider the potential effects of any plan that would either require or allow workers to privately invest a portion of their earnings that would otherwise provide them with Social Security protection.

If given the opportunity, undoubtedly some people would invest their money wisely, avoid disability or early death, and realize a greater return on their investment than they will get from Social Security. But then again, many people would not. What happens to those millions of people? And what burden would be placed on taxpayers if welfare rolls increased to support the many people whose private investments failed?

Social Security was never meant to be a personal investment program. It is a social insurance program. Unlike private pension plans, social objectives--such as raising the standard of living for lower income workers and offering financial security to the families of all workers--are an integral part of Social Security.

Finally, Social Security was never intended to be a person's only income when he or she retires or becomes disabled, or a family's only income when a breadwinner dies. Social Security is intended to provide a floor of protection that would be supplemented by private pensions, savings, and other investments.

As has been widely reportedly recently, the savings rate of Americans is dismal compared to other industrialized nations. I believe it is imperative, therefore to take whatever steps are necessary to encourage people, particularly younger workers, to increase their savings rate. We should be discussing how to encourage private investments as a supplement to Social Security, not as a substitute.

THE WHITE HOUSE
OFFICE OF THE PRESS SECRETARY

FOR IMMEDIATE RELEASE
Wednesday, April 12, 1995

CONTACT: 202-456-7035

VICE PRESIDENT ANNOUNCES REINVENTION OF SOCIAL SECURITY OPERATIONS

WASHINGTON--As part of the Clinton Administration's continuing efforts to reinvent the federal government, Vice President Al Gore today announced a set of reinvention initiatives for the Social Security Administration. While the President was in Warm Springs, Georgia, commemorating the 50th anniversary of the death of President Franklin D. Roosevelt, Vice President Al Gore said: "Social Security is one of FDR's most important legacies to the nation."

In unveiling reinvention proposals to improve social security operations while preserving FDR's legacy, the Vice President said: "We'll have a system ready for the next century, providing world class service to its customers."

The Clinton-Gore reinvention recommendations for Social Security include:

PAYMENT DAY CYCLING FOR NEW BENEFICIARIES: Monthly payments are currently paid on the third of each month. This results in peak workloads for SSA and the banking and business communities. With approximately 3.5 million beneficiaries coming on the rolls annually, there is real concern that SSA could not cope with the workloads. Therefore, new beneficiaries will have their payments staggered over a number of payment dates throughout the month to eliminate workload spikes and allow SSA to provide better customer service without adding staff.

In developing this proposal the Social Security Administration followed the practice of the Administration's National Performance Review by using customer input to improve SSA operations. Interviews with the public conducted in "focus groups" showed that many retirees have already built their monthly activities around the day their payment arrives. Social Security Commissioner Shirley Chater said: "To change that practice would be disruptive to them, so the payment day for those already on SSA's roles will remain the same unless they ask to participate in our new cycling of payments." That is why payment cycling will apply only to new Social Security beneficiaries. One day of every week in the month would, in fact, become "payment day" for a certain number of new Social Security beneficiaries.

IMPROVE 1-800 TELEPHONE SERVICE: SSA spent the last six months meeting with some of American's top rated customer telephone service companies to determine the best ways SSA can provide world class telephone service. SSA learned that these companies rely on modern computer systems to give them the capacity and capability to provide quick and accurate service. SSA is striving to develop the same capability. Commissioner Chater said, "We need to create a technological infrastructure that will allow us to do more and do it better without asking for more resources. Nothing is more important to our agency than getting this infrastructure up and running and serving our customers."

DIRECT DEPOSIT/ ELECTRONIC BENEFITS TRANSFER SERVICES: SSA will increase the number of recipients who are paid by direct deposit in three phases over four years. The first, already underway, is directed to all new beneficiaries who have bank accounts. The second phase will focus on those with bank accounts and who do not use direct deposit services. The final phase will require that all beneficiaries without bank accounts must select one of the electronic benefits transfer services that will be available to receive their monthly benefit payments.

More than forty percent of Social Security's 43 million beneficiaries are still paid by check. Direct deposit would save $.35 per check, or $70 million per year. In addition, more than 35,000 checks are reported lost each month, and the overwhelming majority of these problems would be eliminated by going to direct deposit.

ONE STOP BENEFIT APPLICATION: The Administration wants to give people who are applying for retirement or Medicare benefits more options. Many people may find it more convenient and more comfortable to file for benefits through their own personnel office at work. Today, about one percent of people filing for benefits use this option--and where they are able to do so they use the old paper application process.

The Social Security Administration wants to create a controlled, confidential, electronic process through which employees at large companies can quickly file for retirement and/or Medicare through the company personnel office. This option would allow workers to apply for a company pension, Social Security and health benefits all at one time and in one place.

REGIONAL OFFICE CONSOLIDATION: SSA will be moving hundreds of front-office administrative employees into direct service positions by consolidating 10 regional offices into five. "In an age of instantaneous electronic communication, we will be able to function just as efficiently with five fewer administrative sites," Commissioner Chater said.

STOP COLLECTING ATTORNEYS' FEES: SSA will no longer be a collection agency for attorneys who have clients who appeal Social Security judgments. SSA now approves the fee an attorney (or non-attorney representative) may charge and withholds a part of past due benefits for the attorney. "We are getting out of that business," Commissioner Chater said. "The agency will no longer approve fees or withhold benefits to pay attorneys." Social Security workers now involved in paying attorneys would now be able to provide direct service to beneficiaries. She noted, however, that there will be statutory limits on what attorneys may charge.

EMPLOYERS' ELECTRONIC WAGE REPORTING: All employers, except those who employ only household workers, will be required to file W-2 wage reports with SSA on magnetic media or by electronic transmission. Time and effort now spent in processing and checking paper will be eliminated to allow Social Security to focus more on the important needs of customers.

IMPROVE THE DISABILITY ADJUDICATION PROCESS: State agencies currently have the authority to make disability determinations, fully financed by SSA and following SSA rules. Average claim processing times vary greatly by state, ranging from as low as 42 days to as high as 115 days. SSA will work with the states to jointly establish minimum performance standards and a period of time during which states will be required to meet these standards. In addition "performance enhancement teams" from the highest performing states will be made available on an as needed basis to provide on site assistance. SSA will also encourage the formation of labor/management partnerships in order to find ways of increasing performance. This initiative is intended to raise the level of the lowest performing states and to narrow the gap between the highest and lowest performing states.

IMMIGRATION AND NATURALIZATION SERVICE (INS) WILL PROCESS APPLICATIONS FOR SOCIAL SECURITY CARDS: Aliens will apply for Social Security cards at the time they complete INS immigration paperwork. Currently, the alien applicant is required to furnish almost the same information to SSA as to INS. This will provide "one stop" service, will reduce the potential for issuing cards based on fraudulent INS documents and will result in efficiencies for the government.

END DUPLICATIVE SSA-IRS FILING: Beneficiaries who work and earn over the exempt amount are required to report their earnings to SSA by April 15th each year. Beneficiaries are also required to report their wages for the prior year. To reduce the paperwork burden on the public and provide "one-stop" service, beneficiaries will only report to IRS and include on their income tax return the amount that would otherwise be reported to SSA. IRS will issue any payment due to SSA beneficiaries. In addition, SSA and IRS will work together to determine how IRS can offset overpayment against tax refunds.

These proposals will result in $850 million in savings from FY 1997 to FY 2000.

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOR IMMEDIATE RELEASE
Thursday, June 9, 1994

Social Security Administration
Phil Gambino (410) 965-8904

Stressing the importance of ensuring the long-term solvency and viability of this nation's Social Security program, HHS Secretary Donna E. Shalala today announced the appointment of the 1994 Advisory Council on Social Security.

"Each and every American citizen has a stake in the continued good health of this country's Social Security program," Secretary Shalala said. "This council, composed of leading experts in public and private pension systems in the United States, will examine some of the most challenging issues that go to the core of providing adequate and equitable income for the elderly in retirement."

By law, the advisory council, comprised of 12 members in addition to the chairman, is appointed every four years to examine issues affecting the Social Security Old-Age, Survivors, and Disability Insurance (OASDI) programs, as well as the Medicare program and Medicaid, which were created under the Social Security Act.

Unlike advisory councils of the 1980s which focused primarily on disability, Medicare and health-care issues, the 1994 council will focus on the Social Security OASDI program. Specifically, the secretary has asked the council to examine the following areas:

o Social Security financing, including developing recommendations for improving the long-range financial status of the OASDI program;

- More -

- The adequacy and equity of Social Security benefits paid to persons at various income levels, in various family situations, and various age cohorts, taking into account such factors as the increased labor participation of women, lower marriage rates, increased likelihood of divorce, and higher poverty rates of aged women; and

- The relative roles of the public and private sector in providing retirement income and how policies in both sectors affect the retirement decisions and economic well-being of individuals.

Secretary Shalala appointed as chairman of the council Edward Gramlich, director of the Institute of Public Policy Studies and professor of economics and public policy at the University of Michigan. Professor Gramlich, 54, also has served as chairman of Michigan's Economics Department and as acting director and deputy director of the Congressional Budget Office. Other members are:

Robert Ball, 80, of Virginia - former commissioner of Social Security (1962-1973); member of the 1991 Advisory Council on Social Security and the National Commission on Social Security Reform (Greenspan); chair of the board, National Academy of Social Insurance.

Joan Bok, 64, of Massachusetts - chairman of the New England Electric System; member, boards of directors of Avery Dennison Corporation, the Federal Reserve Bank of Boston, John Hancock Mutual Life Insurance Company and the Monsanto Company.

Ann Combs, 37, of Washington, D.C. - principal, William M. Mercer, Inc.; former deputy assistant secretary for Policy, Pension and Welfare Benefits Administration, Labor Department (1986-1993); staff member, National Commission on Social Security Reform (Greenspan).

Edith Fierst, 69, of Maryland - attorney, Fierst & Moss, P.C., and member of the Advisory Committee of the Pension Rights Center; chair, Technical Committee on Earnings Sharing; specialist in federal and military pension litigation.

Gloria Johnson, 66, of Maryland - director of the Department of Social Action, International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers and vice president of AFL-CIO Executive Council; president of the Coalition of Labor Union Women.

Thomas Jones, 45, of Connecticut - president and COO, Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF); member, boards of directors of Thomas & Betts Corporation and Eastern Enterprises; trustee of Cornell University, Brookings Institution and Committee for Economic Development.

George Kourpias, 61, of Maryland - president, International Association of Machinists and Aerospace Workers, AFL-CIO; member, boards of directors for the National Council of Senior Citizens, Space Cause and the American Association for the Advancement of Science; member of Overseas Private Investment Corporation (OPIC).

Sylvester Schieber, 47, of Maryland - vice president and director of the Research and Information Center, The Wyatt Company; former director of research, Employee Benefits Research Institute; a senior economist and deputy director of policy analysis for the Social Security Administration.

Gerald Shea, 47, of Washington, D.C. - director, Department of Employee Benefits for health care, pensions, Social Security and child care, in AFL-CIO; previously, assistant to the president for government affairs for the Service Employees International Union and organizer for SEIU in Massachusetts.

Marc Twinney, 64, of Michigan - director of pensions for the Ford Motor Company; member of the American Academy of Actuaries and the Pension Research Council of the Wharton School; previously, a consultant at Hewitt Associates, Milliman and Robertson, and Hansen Consulting Actuaries.

Fidel Vargas, 25, of California - mayor of Baldwin Park, Calif., and senior policy analyst to Los Angeles Mayor Richard Riordan; past vice president of Phillips Brooks House, the community service organization of Harvard College.

Carolyn Weaver, 42, of Virginia - director, Social Security and Pension Studies, The American Enterprise Institute; member, 1987 Social Security Disability Advisory Council and senior advisor, National Commission on Social Security Reform (Greenspan); former staff member of Senate Finance Committee and the economics faculties of Tulane University and Virginia Tech.

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