



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 20, 1995 (SENT)
(Senate)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 1470 - Senior Citizens' Freedom to Work Act of 1995
(McCain (R) AZ and 5 cosponsors)

The Administration supports congressional action to increase the Social Security Earnings Test. Currently, retired workers ages 65 through 69 who have earnings above the exempt amount have their Social Security benefits reduced by \$1 for every \$3 in earnings over the exempt amount. This reduction in benefits discourages work by senior citizens who are able and willing to stay in the workforce. Raising the earnings test exempt amount will increase the standard of living of the elderly and help the Nation's economy by increasing the supply of workers to the labor force. Over 900,000 Social Security beneficiaries currently lose some or all of their benefits as a result of the earnings test that applies at age 65.

The Administration's full support for this bill is contingent on the increase in the earnings limit being accomplished in a deficit-neutral manner within Social Security. The Administration is deeply concerned that S. 1470 now achieves deficit neutrality in part by a provision that saves \$3 billion in the Supplemental Security Income (SSI) program -- savings which are already assumed in balanced budget proposals put forth by both the Administration and Congress. Using a proposal as an offset in this bill that both the Administration and Congress have earmarked to reduce the deficit simply exacerbates the deficit reduction problem and is therefore not appropriate. The Administration urges Congress to achieve deficit neutrality without including the savings from the SSI provision by either identifying additional offsets or reducing the change in the earnings test. If the bill does not achieve this test of deficit neutrality, the Administration believes that action on the legislation should be delayed and considered as part of the overall budget discussions.

The Administration also has concerns about some of the other provisions in the bill and their impact on benefit recipients, and would like to work with Congress to address these provisions. In particular, with respect to the provisions of S. 1470 concerning continuing disability reviews, the Administration would support a mechanism that retains the oversight of the Executive Branch and the Appropriations Committees that is inherent in the annual appropriations process. Such a mechanism could be similar to that used for the Internal Revenue Service by the 1990 Budget Enforcement Act.

S. 1470, as reported, would codify the Administration's interpretation of the Secretary of the Treasury's authority as it relates to managing the Social Security and Medicare trust funds during a debt limit crisis. The Administration welcomes the codification of its position that the Treasury may not use the Social Security and Medicare trust funds for any purpose other than to assure the payment of benefits.

Pay-As-You-Go Scoring

S. 1470 would affect both direct spending and receipts; therefore, it is subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. Office of Management and Budget scoring of this legislation is under development.

* * * * *

(Not to Be Distributed Outside Executive Office of the President)

This position was developed by the Legislative Reference Division (Cook) in consultation with HRD (Smalligan), HD (Turman/Mutti/Tumlinson), BASD (Kilpatrick/Kolaian), OIRA (Oliven), NEC (Seidman), DPC (Brostrom), and CEA (Mazur). The Social Security Administration (Camilleri); the Department of the Treasury (Rubin/Anderson); the Department of Justice (Taylor); the Department of Health and Human Services (Wallace); and the Office of Personnel Management (Woodruff) concur with this position. The Department of Labor did not respond.

The Office of National Drug Control Policy (Carnevale/Cronister) would have preferred to have strengthened the Administration's position regarding the use of SSI savings as an offset for the

LEGISLATIVE BULLETIN

April 9, 1996

104-22

THE PRESIDENT SIGNS H.R. 3136 THE "CONTRACT WITH AMERICA ADVANCEMENT ACT OF 1996"

On March 29, 1996, the President signed into law the Contract With America Advancement Act of 1996 (H.R. 3136), as P.L. 104-121. The bill contains the Senior Citizens' Right to Work Act of 1996, the Small Business Growth and Fairness Act of 1996, establishes a new process for Congressional review of agency rulemaking, and provides for a permanent increase in the public debt limit from \$4.9 trillion to \$5.5 trillion. The bill contains the following provisions of interest to Social Security.

Denial of Disability Benefits to Drug Addicts and Alcoholics

- ☐ Prohibits disability insurance (DI) and supplemental security income (SSI) eligibility to individuals whose drug addiction and/or alcoholism (DAA) is a contributing factor material to the finding of disability. This provision would apply to individuals who file for benefits on or after the date of enactment and to individuals whose claims are finally adjudicated on or after the date of enactment. This provision applies to current beneficiaries on January 1, 1997. SSA must: 1) notify current DAA beneficiaries of new provisions by June 27, 1996; and 2) complete new medical determinations by January 1, 1997, for affected current beneficiaries who request such a determination within 120 days after the date of enactment.
- ☐ Applies representative payee requirements to DI or SSI beneficiaries who have a DAA condition, as determined by the Commissioner, and who are incapable of managing benefits. SSA would refer these individuals to the appropriate State agency for treatment. These provisions would apply to applications filed after June 1996. In addition, retains the \$50 fee that representatives can collect for beneficiaries who have a DAA condition that leaves an individual incapable of managing their own benefits.
- ☐ Provides an appropriation of \$50 million for each of FYs 1997 and 1998 to carry out on a priority basis activities relating to the treatment of drug and alcohol abuse under the Public Health Service Act.

Continuing Disability Reviews

- ☐ Authorizes additional funds to SSA for fiscal years 1996 through 2002 for the purpose of conducting Social Security disability insurance (DI) continuing disability reviews (CDRs) and Supplemental Security Income (SSI) CDRs and disability eligibility redeterminations. This would be accomplished by increasing the amount of funds available for appropriations under the discretionary spending cap in the Budget Enforcement Act.
- ☐ Directs the Commissioner of Social Security to ensure that the funds made available pursuant to this provision are used, to the greatest extent practicable, to maximize the combined savings to the old-age, survivors, and disability insurance (OASDI), SSI, Medicare, and Medicaid programs.
- ☐ Requires the Commissioner to report annually, for FYs 1996 through 2002, to Congress on the amount of money spent on CDRs, the number of reviews conducted (by category), the disposition of such reviews (by program), and the estimated savings over the short-, medium-, and long-term for OASDI, SSI, Medicare, and Medicaid programs from CDRs which result in cessations, and the estimated present value of such savings.

Chief Actuary

- ☐ Establishes statutorily in the Social Security Administration the position of Chief Actuary, to be appointed by, and report directly to, the Commissioner, and be subject to removal only for cause. Effective on March 29, 1996.

Dependency Test for Stepchildren

- ☐ Provides that a stepchild would have to be receiving at least one-half support from the stepparent when the child's claim is filed to get benefits. (The option for finding dependency based on living-with would be eliminated.) This provision is effective for benefits of individuals who become entitled after June 1996.

If the natural parent and the stepparent of an entitled stepchild divorce, benefits to the stepchild based on the work record of the stepparent would terminate the month after the month in which such divorce becomes final. This provision is effective for final divorces occurring after, June 1996.

Increase in the Earnings Test Annual Exempt Amount

- ☐ Gradually raises, beginning in 1996, the earnings limit for the retirement earnings test (RET) for beneficiaries who have attained normal retirement age to \$30,000 by 2002 (compared with an estimated \$14,760 for 2002 under prior law, based on the intermediate assumptions in the 1995 Trustees Report). The applicable 1996 exempt amount under prior law was \$11,520. Exempt amounts under P.L. 104-121 (exempt amounts under prior law are also shown) are:

Year	Exempt Amount	Estimated Exempt
	Under P.L. 104-121	Amount Under Prior Law
1996	\$12,500	\$11,520
1997	13,500	12,120
1998	14,500	12,600
1999	15,500	13,080
2000	17,000	13,560
2001	25,000	14,160
2002	30,000	14,760

After 2002, the annual exempt amount will be indexed to growth in average wages.

The substantial gainful activity (SGA) amount applicable to individuals who are statutorily blind would no longer be linked to the RET exempt amount for individuals ages 65 to 69. Instead, the SGA amount for blind people would continue to be adjusted annually as under present law, i.e., based on the national average wage index.

Benefit and Tax Statements

- ☐ Requires SSA to conduct a pilot study of the efficacy of providing retired workers with information about their Social Security benefits and taxes. The study would involve a sample of retirement beneficiaries whose entitlement began in or after 1984. SSA would send them estimates of their aggregate covered earnings, their aggregate Social Security taxes (including the employer share), and the total amount of benefits paid on their record.
- ☐ Requires the study to be conducted within a 2-year period beginning as soon as practicable in 1996 and a report on its results be provided to Congress within 60 days of its completion. Investment of Social Security and Medicare Trust Funds
- ☐ Prohibits the Secretary of the Treasury from refraining from investing Social Security and Medicare Trust Fund monies in Federal securities, and from redeeming securities held by the trust funds, to avoid increasing or to reduce outstanding public debt obligations. Effective March 29, 1996.

Professional Staff for the Social Security Advisory Board

- ☐ Authorizes the Social Security Advisory Board to appoint 3 professional staff employees, one of whom is to be appointed from among individuals approved by Advisory Board members who do not belong to the political party represented by the majority of the Board.

Review of Federal Regulations

- ☐ Requires that Federal regulations, including some of those issued by SSA, undergo an additional review of their economic impact. This review may be conducted, at various stages of the development of a regulation, by the Small Business Administration, the Courts, and the Congress.

THE WEXLER GROUP
1317 F Street, NW
Washington, DC 20004
(202) 638-2121

cc Jeremy
Molly

DATE: January 3, 1996

TOTAL NUMBER OF PAGES
(INCLUDING THIS PAGE): 6

F41

Please deliver the following page(s) to:

NAME: Diana Fortuna

FAX NUMBER: 202-456-7028

SPECIAL INSTRUCTIONS:

We wanted to make sure you were aware of NASADAD's activities on the SSI and SSDI drug addiction and alcoholism issue. Would the Administration be willing to weigh in on this with Congress?

MAXIMUS is pulling together some data for you. We will contact you as soon as we receive it so we can pursue the meeting we discussed.

Thanks so much for your help.

FROM: Betsey Wright
Cindi Berry

If you do not receive the entire telecopy message, please call us as soon as possible at (202) 638-2121.

Operator's Name: Shirley

Facsimile No.: 202-638-7045



National Association of State Alcohol and Drug Abuse Directors, Inc.

MEMO TO: Gerry Kavanaugh
Senate Labor and Human Resources Committee

FROM: Kathleen Sheehan and Chris Rugaber

DATE: December 21, 1995

**HOLD NEEDED ON S. 1432,
"SENIOR CITIZENS' RIGHT TO WORK ACT"**

Attached is our summary of the issues regarding the removal of drug addiction and alcoholism (DA&A) as a disability category for the SSI and SSDI programs, as called for in S. 1432, the "Senior Citizens' Right to Work Act." This bill has been passed by the House and the Senate Finance Committee, and its supporters are pushing for the bill to be brought to the Senate floor by tomorrow. The removal of the DA&A population would provide cost offsets for the increase in the Social Security earnings allowance that S. 1432 would provide.

NASADAD is supportive of S. 1432, but strongly believes that removal of the DA&A disability category is an inappropriate cost offset. As our summary notes, many DA&A recipients could reclassify for SSI/SSDI under another disability. If reclassified, they would continue to receive SSI/SSDI benefits and Medicaid assistance, without the incentive for treatment provided for by the Referral and Monitoring Agencies. The 20-25 percent that are not reclassified will lose everything. Attached is a State-by-State listing of the number of SSI and SSDI DA&A recipients, compiled by the General Accounting Office. Also attached is our most recent waiting list survey, which shows how overburdened the public treatment system already is.

Because of these and other factors outlined in our summary, NASADAD requests that Senator Kennedy place a hold on the bill until an alternative offset can be found. Please call Chris Rugaber at (202) 783-6868 regarding the possibility of a hold being placed. Thank you very much for your time and consideration.



National Association of State Alcohol and Drug Abuse Directors, Inc.

**SSI AND SSDI REFORM
(12/20/95)**

The National Association of State Alcohol and Drug Abuse Directors (NASADAD) opposes provisions in the "Senior Citizens' Right to Work Act" that would eliminate Drug Addiction and Alcoholism (DA&A) as disability categories for the Supplemental Security Income (SSI) and Social Security Disability Income (SSDI) programs. This paper summarizes our concerns on this issue.

- 1) **Over 75% of the DA&A population would be reclassified under a different disability and continue to receive an SSI or SSDI payment.** According to the Congressional Budget Office (CBO), *"only about one-quarter of DA&A recipients would be permanently terminated from the program; the rest could requalify by documenting that they have another sufficiently disabling condition."* CBO made this estimate for the SSI program, but there is no reason to believe the SSDI population will be any different. As a result, reclassifications will require significant time, staff and paperwork to process.
- 2) **Those with alcohol and other drug (AOD) problems who are reclassified would no longer be subject to stringent requirements passed by Congress in 1994.** Legislation passed last year strengthens provisions requiring that DA&A recipients be closely monitored for treatment compliance by a Referral and Monitoring Agency (RMA), and that a third-party representative payee be selected to handle their payments. In addition, it provides a limit of 36 months of SSI benefits to individuals classified as DA&A recipients.

Once these recipients are reclassified under a different disability, Referral and Monitoring Agencies will no longer ensure that recipients receive treatment and other services essential to getting these individuals back to work. Furthermore, benefits will not be time-limited. This would clearly not be an improvement over what exists now. Treatment in a supervised setting holds the best potential for long term recovery and self-sufficiency.

3. **Removing those with alcohol or other drug (AOD) problems from SSI and SSDI would result in a significant cost-shift to the States.** A letter dated February 23, 1995 from the National Governors' Association to House Ways and Means Committee Chair Bill Archer noted that proposed changes in SSI eligibility *"represent a substantial and unacceptable cost shift to states."* NGA adds, *"We also ask that Congress allow last year's amendments regarding the substance abuse population to be implemented before enacting new changes in that area. If changes in SSI are enacted that deny benefits to hundreds of thousands of families and children, the result may be a sharp increase in the need for aid from the new cash assistance block grant at a time when those funds would be capped."*

- 4) RMAs have vastly improved in the past several years, and should be allowed to continue with their work. RMAs ensure that each recipient is assessed, referred to appropriate treatment, has their treatment monitored, and is subjected to graduated periods of benefit suspension for non-compliance with treatment or failure of a drug-test. The Referral and Monitoring Agency function has been strengthened and expanded greatly in recent years as it has been carried out by State Alcohol and Drug Agencies and private companies. Washington State's Division of Alcohol and Substance Abuse runs an RMA that has shown considerable success. A recent study found that 82% of its monitored recipients stayed in treatment, versus 35% of recipients not monitored.

MAXIMUS RMA has contracted to run RMAs in 35 States, and has greatly improved monitoring capabilities through the use of computerized tracking. In the past 12 months, over 11 percent of recipients monitored by Maximus have been referred back to the Social Security Agency due to noncompliance with treatment requirements. Moreover, Maximus has implemented a standardized assessment process that has reduced the number of AOD-disabled recipients on SSI rolls. Allowing this work to continue will yield significant cost savings, from both reduced SSI rolls and increased treatment success.

- 5) Removal of the DA&A population from the SSI rolls is already included in the welfare reform bill. By including this measure as an offset in this bill as well, conflicts between the two measures could arise.

Conclusion

NASADAD understands that many policymakers support removing the DA&A population from SSI and SSDI out of concern over the occasional misuse of federal dollars. But under the "Senior Citizens' Right to Work Act," since drug addicts and alcoholics will no longer be classified and therefore monitored as such, *the potential for misuse of benefits will increase, not decrease.*

MAXIMUS RMA and State Alcohol and Drug Agencies will no longer monitor recipients and refer back to SSA those that do not comply with treatment requirements. And the 36-month limit that currently prevents long-term use of SSI or SSDI by those with AOD problems will no longer apply. *Currently, there is a guarantee that the DA&A population will be removed from the SSI/SSDI rolls; if the DA&A category is eliminated, that guarantee will disappear.*

Number of Addicts by State

State	Grand Totals	Substance Abuse Diagnoses				
		SSI DA&A ^a	SSI Non-DA&A		DI Non-DA&A	
			Primary ^b	Secondary ^c	Primary ^b	Secondary ^c
Alabama	3,953	397	284	1,847	344	1,081
Alaska	348	134	25	88	40	60
Arizona ^d	2,593	872	207	465	429	630
Arkansas	2,074	154	87	1,027	168	628
California ^d	34,848	23,581	3,884	211	3,613	3,888
Colorado	3,308	291	208	1,250	228	1,333
Connecticut	3,718	180	193	918	253	2,181
Delaware	817	26	18	108	26	340
District of Columbia	920	37	50	583	17	239
Florida	13,728	465	430	7,088	544	5,201
Georgia	6,382	484	480	3,387	463	3,618
Hawaii ^e	957	209	30	158	98	486
Idaho	888	98	47	195	64	142
Illinois ^d	27,728	11,843	3,302	2,102	3,705	6,972
Indiana	5,130	867	666	848	601	1,761
Iowa	1,539	168	84	411	118	781
Kansas	1,721	100	84	628	188	721
Kentucky	6,374	912	601	3,029	481	1,381
Louisiana	2,258	189	284	1,228	169	379
Maine	1,815	284	125	225	236	748
Maryland ^d	2,472	604	225	408	300	935
Massachusetts	9,287	1,679	1,270	2,066	1,124	3,148
Michigan ^d	14,524	8,318	662	2,018	1,853	3,678
Minnesota ^d	5,171	1,992	308	652	761	1,558
Mississippi ^d	1,547	177	182	363	188	827
Missouri	3,556	624	118	927	331	1,889
Montana ^d	688	222	46	389	82	248
Nebraska ^d	1,091	107	22	379	73	510
Nevada ^d	1,174	273	73	137	221	470
New Hampshire	719	26	37	182	64	410
New Jersey ^d	4,768	388	442	1,770	418	1,783
New Mexico	1,270	177	121	809	136	227
New York ^d	15,536	2,887	2,436	5,008	1,668	3,519
North Carolina	6,216	388	275	2,493	413	2,646
North Dakota	870	81	9	438	65	289
Ohio ^d	8,086	1,81	988	2,749	1,084	2,386

(continued)

Appendix II
Number of Addicts by State

State	Grand Totals	Substance Abuse Diagnoses				
		SSI DA&A ^a	SSI Non-DA&A		DI Non-DA&A	
			Primary ^b	Secondary ^c	Primary ^b	Secondary ^c
Oklahoma	2,359	187	117	1,372	128	587
Oregon	2,788	618	199	873	324	1,125
Pennsylvania ^d	7,857	1,849	713	2,141	742	2,212
Rhode Island	1,290	86	87	499	83	543
South Carolina	2,271	187	137	1,176	201	590
South Dakota	1,228	127	24	781	53	288
Tennessee ^d	4,982	1,593	591	816	788	1,164
Texas	8,833	319	274	3,425	402	2,413
Utah	1,250	87	74	627	89	473
Vermont	608	80	57	127	74	258
Virginia	3,054	818	177	789	882	1,210
Washington ^d	8,063	1,941	312	523	662	1,565
West Virginia	2,108	872	218	368	304	828
Wisconsin ^d	8,788	2,524	390	1,137	928	1,778
Wyoming	458	19	11	252	17	159
Total	848,188	69,418	21,268	68,789	28,988	71,708

^aSSI DA&A recipients in current payment status as of August 2, 1993.

^bNumber of addicts in current payment status as of August 2, 1993, (SSI) and September 23, 1993 (DI).

^cEstimated number of addicts based on claims allowed during the years 1989 to 1992 and the relationship between those with primary diagnoses of substance abuse versus those with secondary diagnoses of substance abuse.

^dStates (18) with RMAs as of December 31, 1993.

Retirement-test annual exempt amounts for beneficiaries
who have reached the normal retirement age
(currently age 65) but have not reached age 70

Year	Present law (estimated)	As passed by House	H.R. 2684			
			Modified in--			
			2001 \$20,000	2002 \$25,000	2001 \$19,000	2002 \$20,000
1996	\$11,520	\$14,000	\$14,000		\$14,000	
1997	12,120	15,000	15,000		15,000	
1998	12,600	16,000	16,000		16,000	
1999	13,080	17,000	17,000		17,000	
2000	13,560	18,000	18,000		18,000	
2001	14,160	25,000	20,000		19,000	
2002	14,760	30,000	25,000		20,000	

Increase in OASDI benefit payments under
alternative proposals to increase the retirement-test
annual exempt amounts for beneficiaries who have reached
the normal retirement age (currently age 65)

(In millions)

Fiscal year	H.R. 2684		H.R. 2684 modified in--			
	CBO	1995 TR	2001	2002	2001	2002
			\$20,000	\$25,000	\$19,000	\$20,000
1996	\$320	\$350	\$350		\$350	
1997	650	527	527		527	
1998	790	628	628		628	
1999	850	741	741		741	
2000	910	860	860		860	
2001	1,460	1,595	1,150		1,000	
2002	2,030	2,245	1,800		1,150	
Total, 1996-2002	7,010	6,946	6,056		5,256	5.1

Social Security Administration
Office of the Actuary
December 11, 1995

*i.e. w/o \$2B of willfully
\$20K*

THE WHITE HOUSE
WASHINGTON

AGENDA

Social Security Earnings Test Meeting

Monday, December 11, 1995
1:45 P.M.

Room 230, Old Executive Office Building

1. Overview of Current Law
2. Description of H.R. 2684
3. Review Administration Testimony
4. Discussion of Pros/Cons of Raising Threshold

2⁰⁰ - SF Finance

Sec. 8h

? of what earnings, 30K when
⇒ stat'gfy → make pt of budge negot's
Ken: can't be pt of budget

\$3B in SSI DA

\$2 to make def. neutral



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

November 29, 1995

TO: Ken Apfel

THROUGH: Barry White
Keith Fontenot

FROM: Jack Smalligan

RE: Markup of Legislation to Increase Social Security Limit on Earnings

The House Ways and Means Social Security Subcommittee unanimously reported out Rep. Bunning's "Senior Citizen's Right to Work Act of 1995." Full Committee markup is scheduled for tomorrow, November 30, with floor action expected in the near future. The schedule for Senate action is unclear, in part because of a Senate Social Security firewall problem described below.

The earnings limit for those age 65 to 69 is \$11,280 in 1995 and is indexed to average wage growth. The legislation would increase the Social Security earnings limit under the schedule shown below.

<u>Year</u>	<u>Current Law</u>	<u>Proposal</u>
1996	\$11,520	\$14,000
1997	11,880	15,000
1998	12,240	16,000
1999	12,720	17,000
2000	13,200	18,000
2001	13,800	25,000
2002	14,400	30,000

The Administration has supported increasing the earnings limit in concept but has emphasized the need to fully offset the costs of the increase. As a consequence, the remainder of this memo considers the offsets used by this bill.

Offsets to Finance Increase in Earnings Limit.

CBO estimates that the earnings limit increase would cost the OASI trust fund \$7 billion over seven years, including \$2 billion in the year 2002. The legislation includes four offsets that slightly exceed CBO's estimate of the 5 year costs for the Social Security trust funds (as those

costs are defined in the House¹) and pay for all but \$200 million of the 7 year trust fund costs. When the total budgetary effects of the bill are considered, both on-budget and off-budget, CBO estimates that the bill would save \$700 million over seven years.

A summary of CBO's scoring of the bill is shown on the next page and each provision is discussed in more detail later. Two scoring issues complicate an evaluation of whether the increase in the earnings limit is fully offset. First, OMB in the past would not credit the bill with the \$1.9 billion in savings CBO estimates for the continuing disability review (CDR) fund. Second, the bill includes a provision in the welfare reform section of Reconciliation to eliminate drug addiction and alcoholism as conditions to become eligible for SSI. This provision saves \$2.3 billion over seven years in Reconciliation (ignoring Medicaid savings) and \$3.0 billion in the earnings test bill with Medicaid effects included. The savings will be attributed to whichever bill passes first.

In addition to the scoring issues described above, the bill could be the subject of a point of order in the Senate because total Social Security Trust Fund savings, as defined for the Senate, do not offset costs. For the House, CBO's scoring did not count the cost of the CDR fund against the Trust Funds but instead included it with other direct spending. For purposes of the Senate, CBO reports that it is required to include these costs within the Social Security firewall. This reallocation would result in an estimated off-budget Trust Fund cost of \$4.5 billion compared with on-budget savings of \$5.2 billion.

Eliminating drug addiction and alcoholism as conditions for eligibility for DI and SSI benefits.

Both Reconciliation and the Administration's alternative balanced budget plan would eliminate SSI disability benefits for drug addiction and alcoholism (DA&A). While most individuals now eligible for benefits because of these conditions are expected to successfully reapply based on other disabilities, the SSI proposal is estimated to save \$3.0 billion when Medicaid savings are included and \$2.3 billion without Medicaid. During subcommittee markup, no members expressed any reservations regarding this provision. Because SSI is not in the Social Security Subcommittee's jurisdiction, this may be an issue at full committee markup. Advocates of including SSI in the benefit restriction can be expected to argue that benefit eligibility for DI should not be stricter than for SSI as a result of this bill alone. Last year in legislation regarding DA&A, Congress passed stricter rules for SSI recipients than for DI recipients.

Creating a mandatory fund for DI continuing disability reviews (CDRs).

The bill creates a CDR revolving fund, beginning with \$300 million in seed money in FY 1996. At the start of each year, the fund would be credited with an amount equal to the estimated present value of savings to the DI and Medicare Trust Funds from prior year CDRs. SSA's Chief

¹ The House provision to protect the OASDI Trust Funds addresses increases in benefits whereas the Senate provision addresses all OASDI Trust Fund outlays (including by implication outlays for administrative costs).

**Legislation to Increase the Social Security Earnings Limit
Summary of Costs and Savings
(7 Years in millions, CBO)**

Increase Earnings Limit	+7,010
Eliminate DI and SSI benefits for Drug Addicts and Alcoholics	-5,762
Create Continuing Disability Review Revolving Fund	+302
Delay Benefit Recomputation for One Year for Earnings after 65	-1,200
Modify Dependency Requirements for Stepchild Benefits	<u>-1,120</u>
Total	-727
Adding Savings also in Reconciliation Welfare Reform	<u>2,954</u>
Total without Reconciliation	+2,227

Actuary would make this calculation and for this purpose the legislation would establish the Chief Actuary position in statute. CBO estimates that SSA's outlays to perform DI CDRs would gradually grow to \$920 million in 2002.

CBO and OMB have in the past not scored savings associated with these kinds of proposals because the fund does not create a new tool or power that SSA can use to control program costs but only increases the level of effort devoted to an existing practice. CBO's policy has changed and CBO has agreed to score savings from this initiative given a number of conditions: (1) the entire activity would be included on the mandatory side; (2) scorable savings result only from the increase above the base level; (3) and increase above the base must be provided; and (4) resources for the activity are specifically earmarked and not subject to reallocation.

Using CBO scoring, this proposal over 7 years saves the off-budget DI trust fund \$2.6 billion and the Medicare trust fund \$1.7 billion. However, the CDRs cost \$4.7 billion, including \$2.1 billion in base resources for which no savings are credited. As a consequence, in terms of on-budget costs alone this provision loses \$2.3 billion and overall has combined on-budget and off-budget costs of \$300 million. These 7 year costs and savings estimates ignore, of course, the substantial savings that result after the scoring period. GAO has estimated that CDRs have over time as high as a 6 to 1 return on investment. As SSA reduces its backlog of CDRs, this ratio of return on investment should decrease.

Delay Recomputation of Benefits

Under current law, a beneficiary's benefit level is recomputed each year whenever earnings from the prior year would result in a higher benefit level. The bill delays by one year the recomputation of benefits from earnings after a worker reaches the normal retirement age, now age 65. This offset is worth \$200 million a year. At the subcommittee markup, Rep. Bunning argued that most of the people who benefit from recomputation are those who will benefit from raising the earnings test limit. In addition, a one year delay between earnings and a change in benefits is easier for SSA to administer. Because SSA doesn't know a beneficiary's prior year earnings until well into the next year, most of the first year adjustment is provided in a single lump sum payment. Rep. Gibbons objected to the provision, arguing that many over 70 would lose benefits compared to what they would receive under current law. However, Gibbons never offered a formal amendment.

Modify Dependency Requirement for Stepchild Benefits

This provision would end eligibility for benefits to a stepchild when the stepchild is dependent on the parent for less than half of his or her financial support and the child's natural parent and stepparent are divorced. Because the amount payable to survivors and dependents based on a worker's record is limited, one effect of this provision would be to increase the amount of the potential benefit for the remaining children. The provision would be effective for stepchildren

who become entitled three months after enactment. Rep. Jacobs has submitted separate legislation in the past to make this change.

Other Issues -- Elimination of SSA's Role in Processing Attorney Fees

The bill contains an unrelated provision to eliminate SSA's role in processing attorney fees. The committee noted that this was one of the Administration's REGO II proposals. The bill caps attorney's fees at \$4,000 (originally \$2,500 but changed by unanimous consent during markup). No petition process is provided for unusual cases.

The bill also provides an open season for clergy who want to revoke their exemption from Social Security.

CC. Barry Anderson
Barry Clendenin
Chuck Kieffer
Mark Miller
Tim Hill
Art Stigile
Janet Forsgren
Melissa Cook
Richard Turman
Lisa Topel
Richard Green

December 4, 1995

NOTE FOR JEREMY BENAMI
MARTHA FOLEY

FROM: Ken Apfel 

RE: Social Security Earnings Limit

Attached please find memorandum to Director Rivlin on the Social Security Earnings Limit. I have also attached the draft Statement of Administration Policy which is being circulated now for comments. I believe we do not have to meet immediately unless someone has problems with this approach.

Let me know if you disagree.

Thanks.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 4, 1995

MEMORANDUM FOR THE DIRECTOR

FROM: Ken Apfel

RE: Legislation to Increase Social Security Earnings Limit

House floor action is expected this week Wednesday, December 6, on legislation to increase the Social Security Earnings Test. Senator McCain has introduced a bill nearly identical to the House bill. The legislation is fully offset using CBO scoring but a concern exists with using a Reconciliation savings proposal to pay for part of the bill. My recommendation is we express our support for the bill with a reservation regarding the use of a Reconciliation offset.

Even though Democrats voiced concerns with some of the provisions, the Ways and Means Committee reported it out unanimously. The AARP has endorsed the bill.

Is the Earnings Test Increase Acceptable?

The bill would increase the earnings test for those age 65 to 69 under the schedule shown below. The current law level is indexed to average wage growth.

<u>Year</u>	<u>Current Law</u>	<u>Proposal</u>
1995	\$11,280	NA
1996	11,520	\$14,000
1997	11,880	15,000
1998	12,240	16,000
1999	12,720	17,000
2000	13,200	18,000
2001	13,800	25,000
2002	14,400	30,000

This schedule is less aggressive than the one contained in the Contract with America which called for raising the earnings test to \$30,000 by 2000 but still costs \$7 billion over seven years and \$2 billion in 2002. The President has supported increasing the earnings limit; the Administration is on record in support of moderate increases provided they are fully offset. This bill is fully offset over seven years and in 2002, provided the offsets and CBO scoring assumptions discussed below are acceptable. Over the long term, SSA's actuaries estimate that

the bill improves the condition of the Social Security Trust Funds because each beneficiary's short term benefit increase is offset by slightly lower long term benefit levels.

Costs are Only Offset by Using Welfare Reform Reconciliation Proposal

The table below summarizes the offsets used in the bill. Most of the savings comes from the drug addicts and alcoholics (DA&A) provision. The savings from eliminating DA&A for SSI are included in both the Administration's and the Republican Reconciliation bills. The SSI savings are \$3 billion over 7 years and \$600 million in 2002. Because action on the earnings test bill is likely to be completed before Reconciliation, use of the Reconciliation proposal would force deeper cuts elsewhere to meet deficit reduction targets. Advocates of including SSI in this bill will argue that benefit eligibility for DI should not be stricter than for SSI. However, this argument ignores the provision contained in Reconciliation. I recommend that the Administration support the bill's effort to increase the earnings limit but ask Congress to identify more acceptable offsets to ensure the bill's deficit neutrality.

Summary of Costs and Savings (in billions, CBO)

	<u>2002</u>	<u>7 Year Total</u>
Increase Earnings Test	+2.0	+7.0
Eliminate DI and SSI benefits for Drug Addicts and Alcoholics	-1.3	-5.8
Create Continuing Disability Review Fund	-0.45	+0.3
Delay Benefit Recomputation for 1 Year for Earnings after 65	-0.1	-0.9
Modify Dependency Requirements for Stepchild Benefits	<u>-0.4</u>	<u>-1.6</u>
Total	-0.2	-0.9
Add Back Savings also in Reconciliation Welfare Reform	<u>+0.6</u>	<u>+3.0</u>
Total without Reconciliation	+0.4	+2.1

Other Offsets Have Minor Problems but They Do Not Justify Opposing the Bill

Delay in Earnings Recomputation. Under current law the amount of a worker's Social Security benefit is based on an average of his or her lifetime earnings, using the 35 years with the highest earnings. Benefits are recomputed each year whenever including the earnings from the prior year would result in a higher benefit level. The bill would delay by one year the recomputation of benefits from earnings after a worker reaches age 65. An exception is provided for cases in which a worker has some years of zero earnings included in their earnings history. This exception was added because beneficiaries with a year of zero earnings typically have lower benefit levels than other beneficiaries. The impact on the average affected beneficiary is to delay by one year an increase in benefits that is worth about \$200 over the year.

Rep. Bunning argued that most of the people affected by this provision are those who will gain from the earnings test increase. Rep. Gibbons argued that those over 70 lose because they are not subject to the earnings test. SSA data show that 51% of recomputations were for workers over age 70 and 58% if recomputations that replace a "zero year" are excluded. Rep. Gibbons amendment to strike this provision failed on a largely party line vote. Despite these concerns, this is not a serious problem with the bill and should not be raised as an Administration concern.

Continuing Disability Review (CDR) Fund. The bill creates a mandatory fund to finance Disability Insurance related CDRs, beginning with \$300 million in seed money in FY 1996 and growing to as much as \$920 million in 2002. Because the fund finances \$2.1 billion in current SSA CDR costs and CBO does not score savings from the base, the CDR fund does not help offset overall 7 year costs but it does save \$450 million in 2002. CBO and OMB have in the past not scored savings associated with these kinds of proposals. CBO's rules have changed in this area. Because it appears that OMB rules may change when scoring is finalized on HHS's payment integrity proposal this is an acceptable offset.

Modify Dependency Requirement for Stepchild Benefits. Current law provide benefits to stepchild of workers who have retired or become disabled provided the stepchild is dependent on the worker. This provision would require that the stepchild be dependent on the parent for at least half of his or her financial support to be considered dependent. In addition, the stepchild would become ineligible if the natural parent and stepparent are divorced. Because the amount payable to survivors and dependents based on a worker's record is limited, one effect of this provision would be to increase the amount of the potential benefit for the remaining children. The provision would be effective for stepchildren who become entitled three months after enactment. Rep. Jacobs has submitted separate legislation in the past to make this change and no objections were raised at either subcommittee or full committee markup. This appears to be an acceptable offset.

Bill Ends Earnings Limit Link to Benefits for the Blind. Currently, the blind disabled have their level of substantial gainful activity (SGA) linked to the earnings limit level for the elderly. For the non-blind the SGA level is \$500 a month -- \$6,000 a year -- and is not indexed. For the blind it is \$11,280 a year and will grow to \$14,400 by 2002. The bill ends this link in the law so that the blind SGA does not increase when the elderly earnings limit is increased. The bill continues the existing more favorable treatment for the blind. A Democratic amendment would have restored this link until the year 2000 so that the blind SGA level could grow to \$18,000 but it was defeated. Opponents of the amendment argued that the blind already have an SGA level almost twice the level of the non-blind and the difference will continue to grow. While the Administration does not need to take a position on this issue in our SAP, we should not support efforts to treat one category of disability more favorably than other disabilities beyond what is already is established in current law.

Attorney Fees. The bill would also end SSA's role in processing attorney fees and would cap fees at \$4,000. The Administration proposed ending SSA's role in processing attorney fees in REGO II. Some disability advocates and attorneys have criticized our proposal but we have not changed our position. OMB and DPC have been working with SSA on the best way to reduce

SSA's costs while addressing the legal community's concerns. This proposal does not help pay for the earnings test increase. A Democratic amendment to strike this provision was voted down. While this provision is not the best approach, it is not inconsistent with our REGO II position and is not a reason to oppose the bill.

Given the expected House floor action this week Wednesday, we are circulating a draft SAP on Monday to gather agency response to the bill. The draft SAP language is attached. I will be back to get your reactions to the issues in this bill very soon.

Attachment

CC: Jack Lew

DRAFT SAP LANGUAGE ON EARNINGS TEST:

H.R. 2684 - Senior Citizens' Right to Work Act of 1995
(Bunning (R) KY and ____ cosponsors)

The Administration welcomes the Congressional efforts to increase the Social Security Earnings Test. Currently, retired workers between the age of 65 and 69 who earn wages above the earnings test have their Social Security benefit reduced by \$1 for every \$3 in wages. This reduction in benefits discourages work by senior citizens who are able and willing to stay in the workforce. Raising the earnings test will increase the standard of living of the elderly and help the nation's economy by increasing the supply of workers to the labor force. Over 900,000 Social Security beneficiaries lose some or all of their benefits as a result of the earnings test that applies at age 65.

While the Administration supports increasing the Social Security earnings limit for senior citizens, its support is contingent on accomplishing this in a deficit-neutral manner. The Administration has concerns about some of the details in the bill and would like to work with the Congress in these areas. One item of particular concern is that H.R. 2684 contains a cost-saving provision for the Supplemental Security Income (SSI) program that is also assumed in balanced budget proposals put forth by the Administration and the Congress. When H.R. 2684 is considered together with these proposals, the effect is to increase the deficit by \$2 billion. Using a proposal that the Administration and Congress have earmarked to reduce the deficit simply exacerbates the deficit reduction problem and is therefore not appropriate. The Administration recommends that Congress establish more acceptable offsets to ensure deficit neutrality.

PAYGO PARAGRAPH

The Washington Post

AN INDEPENDENT NEWSPAPER

Entitled

YOU KNOW the politicians think too much is spent on entitlements because they say so, only it always turns out they don't mean all entitlements. Just some. The House has just finished cutting an admirably wide swath through the entitlement side of the budget; it ran the mower over Medicare, Medicaid, food stamps, welfare, farm price supports and who knows what else. So now the Ways and Means Committee is celebrating—by raising benefits for recipients of the largest entitlement, Social Security. Not just any recipients, either; these increases would go mainly to the better-off. What better way to top off a process in which so many of the cuts have been in programs for the poor.

What they voted to do was raise the so-called earnings test, the amount of money a Social Security recipient can continue to earn and not have his benefits docked. The proposal was part of the House Republican Contract with America but got squeezed out of the big bill to balance the budget.

So they have approved it separately, but it wasn't just Republicans who did so. The Democrats were right in there. The vote was 31 to 0—unanimous—and it will likely be just about that top-heavy when the measure gets to the floor, perhaps this week. The chairman of the Senate Finance Committee is likewise in favor of the step, nor is the president opposed, even though he should be. The best the administration could do when the costly, regressive proposal came up earlier in the year was to say that it wanted to keep the increase within "reasonable limits" and see that it was financed.

Under current law, the earnings threshold will be \$11,520 next year and rise to \$14,400 by 2002. The bill would move it to \$30,000 by then. Above the threshold, benefits are reduced \$1 for every \$3 of earnings (but so-called unearned income, from investments, doesn't count). About a million recipients ages 65 to 69 would benefit from the increase, at a seven-year cost of about \$7 billion. Proponents say they're doing it for the needier elderly who are trying to eke out a decent standard of living by supplementing their other retirement income. Why penalize work, they ask?

But in fact that's a false rationale. More than 70 percent of the benefit increase would go to the half of retirees who are already best-off. The legislation also compounds the very notion of entitlement that its sponsors, in other contexts, profess to oppose. Social Security isn't a reward for reaching older age. It's insurance against the loss of earnings at retirement. If you don't retire, you don't collect, which is why there is an earnings test. The proponents would hand the money out anyway.

They have financed the increase by cutting other Social Security benefits. Some of the cuts seem wrongheaded to us, but the proponents say they are justified. Assume that's so. Why not then use the money to lower the deficit and take the pressure off other programs like Medicaid and food stamps? That would be the better policy. But the better politics at the start of an election year is to vote for a Social Security benefit increase—so naturally that's what happened.

ADMINISTRATION STATEMENTS ON RETIREMENT EARNINGS

- Putting People First: support "lifting" retirement earnings test (no dollar amount)
- Commissioner Chater January Contract on America hearing: support "moderate" increase provided able to fund; no dollar amount until pressed, then talked about \$1-3,000 (laughed at by Rep. Bunning)

Report of Markup Before the
U.S. House of Representatives
Subcommittee on Social Security
Committee on Ways and Means
on *The Senior Citizens' Right to Work Act of 1995*

November 28, 1995

Subcommittee Members Present

Republicans: Bunning (Chairman, KY); Johnson (TX); Collins
(GA); Portman (OH); English (PA); Christensen
(NE); Laughlin (TX)

Democrats: Jacobs (Ranking Minority, IN); Kennelly (CT);
Payne (VA); Neal (MA); Gibbons (ex officio, FL)

Purpose of Markup

To consider legislation which would amend Title II of the Social Security Act to provide for increases in the amounts of allowable earnings under the Social Security earnings limit for individuals who have attained retirement age, and for other purposes.

Opening Statement

Chairman Bunning said that the current limit on earnings is too low and punishes seniors who choose to or must work. Mr. Bunning went on to say that he and Representative Jacobs support this legislation because it will benefit almost 1 million working class seniors.

Discussion

Valerie Nixon, Staff Director for Chairman Bunning summarized the attached *Explanation of Draft Bill* to the subcommittee. During the reading of the draft, Ms. Nixon introduced an amendment by Chairman Bunning and Representative Jacobs to Section 6-- Elimination of the Role of the Social Security Administration in Processing Attorney Fees--that would change the proposed maximum amount representatives could charge from \$2,500 to \$4,000. This amendment was passed by voice vote without noticeable democratic objection.

Representative Kennelly later introduced a second amendment to Section 2--Increases in the Social Security Earnings Limit--which would provide for an increase in the SGA limit for the disabled blind to the earnings limits proposed for those age 65 to 69 over the next five years. Ms. Kennelly went on to say that her amendment could be paid for by the current SSA scorecard surplus which CBO estimated would increase to approximately \$800 million by this legislation. However, CBO confirmed that the SSA scorecard is for the House only and would not be available to pay for this provision in the Senate. Chairman Bunning also questioned the fairness of increasing the SGA limit for the blind to almost three times the non-blind SGA limit. The amendment was subsequently defeated by voice vote. All democratic Representatives supported the amendment and Ms. Kennelly stated she would reintroduce this amendment before the full committee.

Representative Gibbons voiced concerns over paying for this legislation at the expense of delaying recomputations to seniors, particularly those over age 70. Mr. Gibbons plans to raise this issue again at full committee.

The bill was favorably reported out of the subcommittee by voice vote with no noticeable democratic objection.

Provisions of Senior Citizens' Right to Work Act of 1995

Section 2. Raises the exempt amount for persons aged 65-69 to \$30,000 in seven years, beginning in 1996, and adjust the amount thereafter based on increases in the growth in wages. The 1995 exempt amount is \$11,280. Exempt amounts under the bill are:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1996	\$14,000	2000	\$18,000
1997	15,000	2001	25,000
1998	16,000	2002	30,000
1999	17,000		

Section 3. Establishes a Continuing Disability Review Administration Revolving Account in the Federal Disability Insurance Trust Fund. The account would be initially funded with \$300 million which would be transferred to the Account from amounts otherwise available in the Federal Disability Insurance Trust Fund. Expenditures from the Account could be used only for the purpose of conducting CDRs.

Because explicit annual certifications are required from SSA's Chief Actuary, the provision also establishes the position of Chief Actuary, which is now provided for administratively, by statute.

Section 4. Requires that, to qualify for benefits, a stepchild must be dependent on a stepparent for at least one-half of his or her financial support. (The current provision allowing the stepchild to qualify if he or she is living with the stepparent would be eliminated.) If the natural parent and the stepparent divorce, terminate the child's benefit six months after SSA receives a report of the divorce.

Section 5. For workers who have earnings in years after the year in which they reach retirement age, the benefit recomputation to substitute a year of higher earnings for a year of lower earnings would be effective with benefits for the second year following the year of higher earnings (rather than the following January), unless the year being replaced is a year of zero earnings.

Section 6. Eliminates current law requirement that SSA withhold and pay attorney fees. Caps the amount a representative may

charge for favorable determinations at \$4,000 for administrative level decisions.

Section 7. Prohibits DI and SSI eligibility to individuals whose drug addiction and/or alcoholism (DAA) is a contributing factor material to the finding of disability. Applies to new applications filed on or after the date of enactment and to current beneficiaries on January 1, 1997.

Extends representative payee requirements to any DI and SSI beneficiary who has a DAA condition, as determined by the Commissioner, that prevents that beneficiary from managing benefits. SSA would refer, as appropriate, these individuals (to the appropriate State agency) for treatment. Applies to new applications filed on or after the date of enactment and to current beneficiaries on January 1, 1997.

Section 8. Gives clergymen who have elected to be exempted from Social Security a limited period (generally, until April 15, 1998) to revoke the exemption.

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The Social Security Earnings Test: A Fact Sheet

Geoffrey Kollmann
Specialist in Social Legislation
Education and Public Welfare Division

With variations, the earnings test has been part of the social security program since its beginning. It is a provision that reduces the benefits of recipients who earn income from work above a certain sum. In 1993, the law provides that recipients under age 65 may earn up to \$7,680 a year in wages or self-employment income without having their benefits affected. Those aged 65-69 can earn up to \$10,560 a year. For earnings above these amounts, recipients under age 65 lose \$1 of benefits for each \$2 of earnings, a 50 percent benefit-reduction rate. Those aged 65-69 lose \$1 in benefits for each \$3 of earnings above the exempt amount, a 33 percent benefit-reduction rate. The exempt amounts rise each year at the same rate as average wages in the economy. The test does not apply to beneficiaries above age 69.

Example (Age 65 in 1993):	
Earnings	\$15,000
Exempt Amount	10,560
Difference	4,440
Reduction in benefit	1,480 (1/3 of difference)

Each year about 1.4 million recipients are affected (have some or all of their benefits reduced) by the earnings test. They represent about 4 percent of all recipients. Of those ages 65-69, about 10 percent (935,000) are affected, and an additional 140,000 persons are said to be deterred from filing for benefits because of the test.

Proposals to liberalize or eliminate the earnings test are perennial. Many earnings test bills were introduced in the 102d Congress. Some would have repealed the test entirely, some would have eliminated it only for individuals who have attained full retirement age, and some would not have applied it to certain earnings (e.g., earnings from child care). Others would have kept the test, but would have increased the exempt amounts. In its FY 1993 budget the Bush Administration proposed that the exempt amount for recipients aged 65-69 be increased by an additional total of \$1,000 in 1993 and 1994 and then return to its current law level in 1995. On November 12, 1991, the Senate adopted an amendment by Senator McCain to S. 243, the Older Americans Act Reauthorization Amendments of 1991, that would have repealed the earnings test for persons who have attained full retirement age (currently age 65). On April 9, 1992, the House adopted an amendment by Representative Rostenkowski to the Senate version of the bill that would have increased the exempt amount for persons who have attained full retirement age to \$20,000 by 1997. On July 2, 1992, the Senate Finance Committee reported S. 2038, which would have raised the exempt amount to \$51,000 by 2001. None of these proposals was enacted.



Arguments Against the Earnings Test. A common complaint among recipients affected by the test is that they are being denied a benefit that they have "bought and paid for." Social security has always been described as a program in which benefits are paid as an "earned right," and thus to some critics it seems inappropriate to impose what they see as a needs test that would deprive workers of their "earned" benefits. The test also is criticized as a severe disincentive for older people to work and as an oppressive tax because it can add 50 percent to the effective tax rate workers pay on earnings above the exempt amounts. It is asserted that it is unfair to reduce benefits of those who must work to supplement their benefits while placing no limits on persons with alternative forms of income such as private pensions or investments. Furthermore, critics contend that in addition to being complicated and difficult for people to understand, the test is complex and costly to administer.

Advocates for repealing the test deny that doing so would be costly. They point out that actuaries have projected little or no cost in the long run; in the short run they argue that people would work more and pay more taxes, offsetting the increase in benefit payments. They dispute that repeal would benefit primarily well-off recipients, reasoning that many people who now deliberately hold down their earnings would increase their work effort. Moreover, they maintain that even if the additional benefits were shown as a cost, it would not jeopardize the social security trust funds because they are projected to continue to accumulate large reserves, nor would it affect the deficit because social security is no longer part of the budget.

Arguments for the Earnings Test. Defenders of the test say it supports the purpose of social security. Because the system is meant to replace some of the income lost when a worker retires, dies, or is disabled, they consider it appropriate to withhold benefits from workers whose substantial earnings show that they have not "retired." They say that the test does not impose true hardship but is actually fairly generous (a person eligible for an average benefit can earn an average wage and still receive over one-half of his benefits). They assert that to liberalize or abolish the test would further erode the concept that social security should replace lost earnings. Also, they argue that eliminating or significantly liberalizing the benefit would primarily help the better-off. Research by the Congressional Budget Office (CBO) shows that only 16 percent of all recipients age 65-69 had family income above \$50,000 in 1989, yet 45 percent of the people who would gain from removing the earnings test had incomes above that level. While 32 percent of all recipients had incomes below \$15,000, only 3 percent of them would gain from removing the test. (CBO assumes there would be no change in work effort.) Simply raising the earnings limit would have benefitted proportionately more women and families with incomes below \$25,000. Similarly, the Social Security Administration (SSA) estimates that, if the test were repealed, in 1992 approximately half of the additional benefits would have gone to those with family incomes above \$63,500, but only 5 percent of extra benefits would have gone to those with family incomes below \$28,000.

Defenders say significantly liberalizing the test would be costly. CBO estimates that repealing it for those aged 65-69 would produce no revenue but would increase benefits by \$5 billion a year. SSA projections are similar, except that it estimates that 10 percent of the costs would be offset by additional taxes. Thus, the extra benefits would have to be financed almost entirely by increased taxes, more borrowing, or spending cuts.

For more information, see: U.S. Library of Congress. Congressional Research Service. *Social Security: Proposed Modifications to the Earnings Test*. Issue Brief No. IB89114, by Geoffrey Kollmann. Updated regularly.

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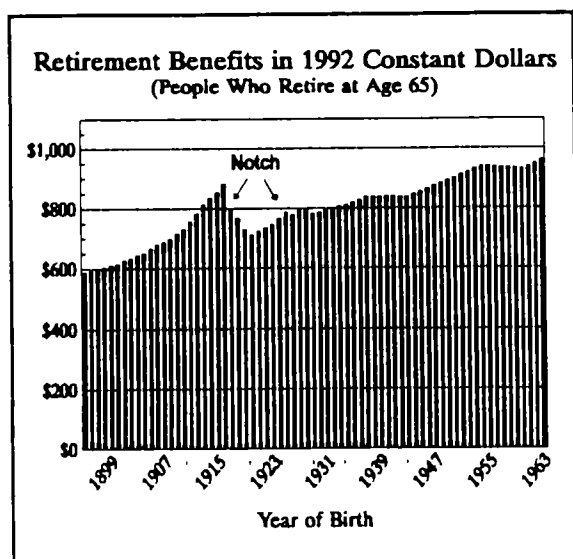
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Social Security Notch Issue: Fact Sheet

David Koitz
Education and Public Welfare Division

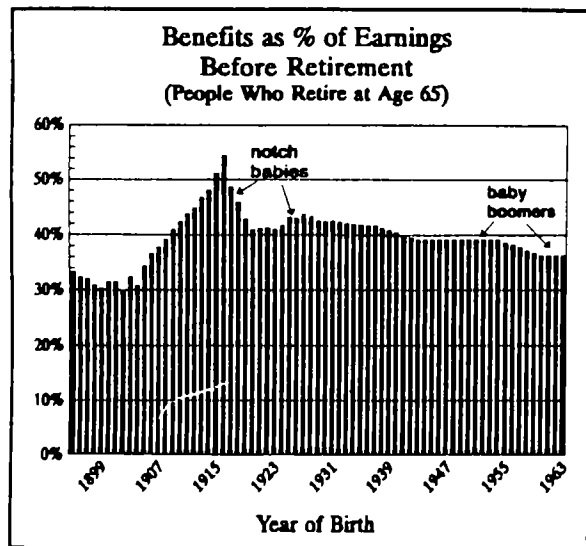
Amendments to social security enacted in 1977 (P.L. 95-216) substantially altered the way social security benefits were to be computed, beginning with people who became eligible in 1979. For retirees, this meant people born after 1916. Many of those born in the 5- to 10-year period after 1916--so-called "notch babies"--have perceived that the changes in the rules caused their benefits to be lower than those of retirees who were born before and after them, and they seek redress.

Without the changes made in 1977, the social security system would have become insolvent within 3 or 4 years. Legislation enacted in the 1972/1973 period, automatically tying social security benefits to inflation, was the cause. Although intended to provide inflation adjustments to people already receiving benefits, each automatic increase also raised the eventual benefits of future retirees. Future retirees would have earned higher benefits in any event because their wage histories would have been higher (social security benefits are based on a person's wages). Under the economic assumptions made in the early 70s, this dual indexing would not have been a problem, but those assumptions proved wrong and many future retirees would have joined the social security rolls with benefits bigger than their earnings before retiring. The 1977 changes were designed to keep this from happening and improve the system's financial condition. However, the changes caused notable benefit disparities between the people first affected by them and the last few groups of retirees grandfathered under the old rules.



Arguments for notch legislation: Proponents of legislation to remedy the benefit disparities maintain that up to 15 million people born in the 10-year period after 1916 have been injured by the 1977 rule changes; that the disparities thus caused are often very large--in some instances, exceeding \$200 a month; that the disparities were not intended; that they were caused by a faulty transition to the new rules; that their existence is raising doubts about the fairness of the social security system and Congress' ability to oversee it; that the proposed notch remedies would result in a smoother shift to the new rules; that the social security system has surplus receipts and a large enough trust fund to remedy the problem; and that the issue merits a straight up or down floor vote since hundreds of Members of Congress have cosponsored notch bills.





Arguments against notch legislation: Critics of the legislation maintain that there is no injustice--that the "notch babies" are comparing themselves to people born before them in the 1911 to 1916 period who got more than intended; that when their benefits are measured against their earnings before retirement, they are getting what Congress intended and a higher percentage than future generations will get; that they will certainly get their moneysworth from social security and a much better "deal" than the baby boomers will get; that the National Committee to Preserve Social Security and Medicare has misled many seniors about the issue in mailings that solicit money; that the proposed remedies would cumulatively cost \$300 billion by 2020, weakening social security's

financial condition and adding to the Federal debt being passed on to future generations; and that though many Members have cosponsored notch bills, fewer than 50 were reported to have signed a petition to force a House floor vote on the issue.

Legislative action: Many notch bills, often with large cosponsorship, have been introduced in Congress over the past decade, but there was little legislative action until 1990. Support from outside interest groups has been limited. The National Committee to Preserve Social Security and Medicare took up the issue in 1986 and has since sent out mass mailings across the country seeking support from seniors born in the 12-year period after 1916. A few veterans' groups and localized grass roots notch groups also have given support. Most other organizations representing the elderly, led by the American Association of Retired Persons (AARP), have opposed the legislation. The AFL-CIO, National Association of Manufacturers, and National Taxpayers Union also have come out in opposition, as did the Carter, Reagan, and Bush Administrations.

No action has ever been taken on notch measures in the House. Various attempts were made in the past two Congresses to gain support for discharge petitions to force the Ways and Means Committee to report out a bill, but the sponsors were unable to get enough signatures. Notch measures have been brought up in the Senate a number of times; however, none won passage. The latest attempt was made by Senator Sanford (et. al.) who sought to attach his notch bill (S. 567) to the Treasury, Postal Service FY 1993 appropriations bill (H.R. 5488) on October 10, 1992. It, and its House companion bill, H.R. 917, would have liberalized the "transition" rules of the 1977 amendments for people born from 1917-1926. The attempt failed when the Senate, on a 49 to 49 vote, refused to set aside an objection from Senator Bentsen that the measure violated the social security "firewall" rules because it would have increased social security spending without offsetting spending reductions or tax increases. Later in the debate the Senate adopted, and the House subsequently agreed to, a measure establishing a commission to study the issue and report to Congress by December 31, 1993.

For additional information, see U.S. Library of Congress. Congressional Research Service. *Social Security Notch Debate*. Issue Brief No. IB92129, by David Koitz and Geoffrey Kollmann. Washington, 1992.

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Social Security's Government Pension Offset: A Fact Sheet

Carolyn Merck
Geoffrey Kollmann
Specialists in Social Legislation
Education and Public Welfare Division

BACKGROUND

Social security spousal benefits are payable to the spouses of retired, disabled, or deceased workers covered by social security.¹ The government pension offset (GPO) reduces social security spousal benefits to persons who receive a pension from government employment (Federal, State, or local) that was not covered by social security. The GPO reduction in social security spousal benefits is equal to two-thirds of the government pension.

The GPO is intended to place retirees whose government employment was not covered by social security and who are eligible for a social security *spousal* benefit in approximately the same position as other retirees whose jobs were covered by social security. Social security retirees are subject to an offset of spousal benefits according to that program's "dual entitlement" rule. That rule requires that a social security retirement benefit earned by a worker be subtracted from his or her social security spousal benefit, and the resulting difference, if any, is the amount of the spousal benefit paid. Thus, workers retired under social security may not collect their own social security retirement benefit as well as a full spousal benefit. The rationale is that a social security spousal benefit is based on the concept of "dependency," and someone who receives his or her own social security benefit as a retired worker is not completely financially dependent on his or her spouse.

The GPO replicates the social security dual entitlement rule by assuming that two-thirds of the government pension is approximately equivalent to a social security retirement benefit the worker would receive if his or her job had been covered by social security. Thus, the GPO requires that two-thirds of the government pension be subtracted from the social security spousal benefit, and only the resulting difference, if any, is paid.

The GPO is effective for persons applying for social security spousal benefits in or after December 1977 (the month of enactment). It does not apply:

¹Including divorced spouses if the marriage lasted at least 10 years.

(1) if the individual is eligible for spousal benefits under the rules that existed in January 1977,² and was eligible to receive the government pension within the period beginning December 1977 and ending November 1982; (2) if the individual became eligible for the government pension after November 1982 and before July 1983 and if at least one-half of the individual's support came from his or her spouse; or (3) if the employment upon which the government pension is based was covered by social security on the worker's last day before retirement.

Generally, employees of the Federal Government hired before 1984 are covered by the Civil Service Retirement System (CSRS) and are not covered by social security; thus, they are subject to the GPO. Most Federal workers first hired into Federal service after 1983 are covered by the Federal Employees' Retirement System (FERS), which includes social security coverage; thus, although FERS retirees are not subject to the GPO, they are subject to the social security dual entitlement rule.

ISSUES

Critics of the GPO say that it is not well understood, and that many affected by it are unprepared for a smaller social security benefit than they had assumed in making retirement plans. They also assert that it is too harsh on surviving spouses, especially widows. Moreover, they contend that, whatever the GPO's rationale, reducing everyone's social security spousal benefits by two-thirds of their government pension is an imprecise way to estimate what the spousal benefit would be had the government job been covered by social security. Ideally, the way to compute the offset so that it replicates the dual entitlement rule would be to apply the social security benefit formula to an individual's total earnings, including the noncovered government portion.

Defenders of the GPO maintain that it is an effective method to curtail an otherwise unfair advantage for government workers. The provision was phased in over 6 years, and has been in the law for 14 years now; thus, there has been ample time for people to adjust their retirement plans. Because administrative considerations have precluded applying the social security benefit computation rules to government employment, the GPO is defended as a practical way to prevent undue social security benefits from going to government retirees.

²These rules included a 20-year duration of marriage requirement for divorced spouses. They also required that a *male* claimant be dependent upon his spouse for at least one-half of his financial support, although *women* did not have to prove dependency. The Supreme Court, in March 1977, found this difference to be unconstitutional and invalidated the "support test." This decision had little effect on most married men because, having worked most of their careers under social security, they were precluded from receiving social security spousal benefits due to the dual entitlement rule. However, as a result of the Supreme Court's decision, spousal benefits would have become payable to married men who were retired government employees eligible for little or no social security in their own right because most of their career had been spent in noncovered government service. Seeing this situation as generally unfair, Congress created the GPO and applied it (eventually) to both men and women.

CRS Report for Congress

Congressional Research Service • The Library of Congress

Social Security Disability Issues: Fact Sheet

David Koitz
Specialist in Social Legislation
Education and Public Welfare Division

Disability Insurance (DI), which is part of social security, and Supplemental Security Income (SSI), a welfare program, are cash benefit programs administered by the Social Security Administration (SSA). Together they paid nearly \$45 billion to the disabled in FY 1992. Working under agreements with SSA, 54 State government agencies made nearly 2.5 million disability decisions in 1992. SSA's nearly 900 administrative law judges heard more than 300,000 appeals. These large programs and the complex administrative process through which they operate have received attention recently because of delays in getting disability claims decided, Federal Court decisions that have altered SSA's policies, and a warning in the 1992 report of the social security trustees that the DI trust fund could be depleted in 5 years.

The Trustees' Warning: The social security trustees--who report to Congress annually on the financial status of the program--warned in April 1992 that the DI program is in financial trouble and that its trust fund may be depleted in 1997 or sooner. Their forecast reflects rapid enrollment increases over the past few years and DI tax revenues constrained by a stagnant economy (the DI tax is part of the overall social security tax).

The causes of the higher enrollment are uncertain. The award rate has risen sharply over the past decade, suggesting that disability decisionmakers have become more lenient. However, quality control data do not show increased errors in awards. It may be that SSA has loosened eligibility criteria. If so, Congress and the courts might have played a part. Acting on complaints that people were being removed from the rolls unfairly, in 1984 Congress changed the rules for ending benefits: benefits could be stopped only if SSA could show that a recipient's medical condition had improved since the previous decision. After this rule was adopted, the number of terminations fell. Congress has since been less active, but not so the courts. Since the early 1980s the courts have made many decisions favorable to claimants. While individual suits have subsided, 46 class action suits involving disability issues are pending or threatened.

CY	(\$'s in billions)		
	DI income	DI outgo	Trust fund balance, at year end
1992	31.1	31.4	12.6
1993	33.0	33.8	11.8
1994	35.0	36.6	10.2
1995	36.8	39.7	7.3
1996	38.8	43.3	2.9
1997	40.9	47.1	-0-

Source: Trustees' intermediate forecast.

SSI's Growth Has Exceeded DI's: Disability awards under the SSI program, which imposes a means test for eligibility, have been growing faster than under DI, and more people are now enrolled in SSI because of disability than in DI. Overall enrollment in SSI based on disability rose by 37 percent between 1985 and early 1992; DI enrollment rose by 22 percent. A Supreme Court decision expanding SSI for disabled children, outreach efforts by SSA, and actions taken by State and local governments to promote SSI are the likely causes. With dual claims for SSI and DI on the rise, SSI's growth may be spilling over into DI.

These Programs Have Administrative Problems, Too: Disability applications are increasing and the backlog of claims is expected to reach 1.2 million in FY 1993. SSA has made these claims a "priority" workload, but it has done so in part by curtailing reexaminations of existing recipients, loosening evidentiary requirements, and easing up on its reviews of eligibility decisions. Across-the-board appropriation cuts by Congress are partly to blame, but the appropriations requested from past Administrations generally were insufficient to handle the workloads. Although appearing to be distinct, these administrative problems may be contributing to the program's financial problems.

DI's Looming Insolvency Has Prompted Proposals To Reallocate Taxes to It From Social Security's Retirement Program: The trustees' favorable forecast for the social security retirement program--that it would be solvent until 2042--has prompted proposals to allocate a greater portion of the social security tax to DI. Projections show that the two programs could still be kept solvent until 2036. Such a reallocation would eventually shift of about 3 percent of the retirement program's taxes to DI. During the first 9 years, 1993-2001, it would require a reallocation of an estimated \$142 billion between the two programs.¹

Some advocates of reallocation favor quick action to allay fears that the program is in danger and provide time to assess whether an improving economy and increasing administrative resources will alter the outlook. Others favor only a temporary reallocation to force a careful assessment of the factors driving up enrollment and whether there are feasible ways to constrain it.

Regardless of whether a reallocation were permanent or temporary, it is increasingly evident with each new report from the trustees that the overall allocation of social security taxes will have to be reconsidered in the near future. It is not just the DI program that is in trouble. The Hospital Insurance (HI) part of medicare, which also is financed with social security taxes, is projected to become insolvent in 2002. This is only 5 years later than DI's projected insolvency, and pressure is likely to mount to give HI a greater share of the taxes, too. If this were done with the goal of postponing insolvency for the three programs combined to the latest possible date, the insolvency point for the retirement program would move up to 2020.

¹The tax rate for the retirement and survivor program in the year 2000 would be 5.32 percent (employee and employer share each) instead of the 5.49 percent rate scheduled under current law. The DI rate would be .87 percent instead of .70 percent.

CRS Report for Congress

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Social Security: Raising the Retirement Age An Issue Summary

Geoffrey Kollmann
Education and Public Welfare Division

The original Social Security Act of 1935 set the minimum age at which workers could receive social security retirement benefits at 65. The reason for this choice is not clear, but it is often said that age 65 was selected because it was used in most State old-age assistance plans and in many pension plans and foreign social insurance programs. In 1956, Congress lowered the minimum age to age 62 for women, but also provided that benefits taken before age 65 would be permanently reduced to account for the longer period over which benefits would be paid. This "actuarial reduction" is 5/9 of 1 percent for each month benefits are received before age 65--a 20 percent reduction at age 62. Congress extended this "early retirement" provision to men in 1961.

Beginning in the mid-1970s, the issue of raising the retirement age was studied by several advisory panels. The initial impetus for these studies was concern over projections of growing deficits in the program over the long-range. A major part of the deficit problem reflected a declining ratio of workers to retirees. It was argued that increasing the retirement age would offset this decline and bolster the financing of the program. It was also argued that it would properly recognize the substantial increases in longevity that had occurred and were projected to continue. When Congress enacted major legislation in 1983 (P.L. 98-21) to solve social security's financing problems, it included a provision that gradually will raise the "full" retirement age (the age at which one receives unreduced benefits) from age 65 to age 66 over the period 2003 to 2008, and to age 67 from 2022 to 2027. Early retirement still will be available, but benefits will be lower, e.g., the actuarial reduction in benefits ultimately will be 30 percent, instead of the present 20 percent, at age 62. At the time, it was projected that the provision would reduce social security's long-range (over the next 75 years) costs by slightly more than 5 percent. As concern has continued about the long-range solvency of social security (and about the cost of "entitlement" programs in general), proposals have been made to accelerate the 1983 provision or to increase the retirement age further.

Arguments for raising the retirement age: Advocates of raising the retirement age point out that life expectancy has improved significantly since social security was enacted. When benefits were first paid in 1940, a 65-year-old on average lived about 13 more years. In 1995 an age 65-year-old is expected to live about 17 more years. They cite these longevity increases, as well as improvements in the overall health of the elderly, as a reasonable basis for



encouraging workers to retire later in life. Also, they highlight the substantial savings produced by raising the retirement age. According to the Social Security Administration, raising the full retirement age to 68 in 2017 would reduce the program's long-range costs by about 4 percent, and raising it to 71 in that year would lower costs by about 13 percent. Accelerating the present law increase in the full retirement age to age 66 in 2002 and age 67 in 2008 would lower long-range costs by about 1 percent.

Proponents of raising the retirement age say that it would be a more equitable way to control social security's costs, because it would spread the burden among workers who have time to adjust their retirement plans, whereas cuts in benefits for current retirees, such as COLA restraints, would concentrate the burden on elderly people with few options for offsetting their losses. It is argued that current workers would probably prefer that the retirement age be changed, to which they can adjust by planning to have a longer work career or by saving more to supplement their social security, than to have their social security taxes raised. Proponents also assert that this change would not make social security a "bad deal," because workers still would receive far more in benefits than the taxes they would pay.

Arguments against raising the retirement age: Opponents of raising the retirement age say it is simply a cut in benefits, which would unfairly penalize workers who planned their retirement based on current law. They aver that the burden would be concentrated on those unable to work until later ages because they are unemployed or work in arduous occupations. They maintain it would adversely affect racial minorities who have shorter life spans. They dispute that increased longevity necessarily corresponds with ability to work at later ages--people may be living longer, but with more chronic illness and impairments.

Opponents also disagree that it is better to place the burden on current workers rather than current recipients. They point out that retirees receive a far better deal from the program than will younger generations. For example, a person who always earned an average wage retiring at age 65 in 1993 recovers the value of the retirement portion of his social security taxes plus interest in less than 5 years--this payback time expands to almost 8 years for a similar individual retiring in 2015. Also, because current retirees pay income tax on their social security benefits if their income is above certain thresholds, only about 20 percent do so. As these thresholds are not indexed, it is projected that eventually inflation will cause virtually all future social security recipients to pay tax on their benefits. Furthermore, opponents maintain that it would not necessarily be burdensome to ask current recipients to share in cutting costs, especially if they are targeted on the better-off. Many recipients have high incomes--4.4 million (about 11 percent) of them have annual incomes over \$50,000.

Finally, opponents say that it would be irresponsible to raise the retirement age without taking compensatory measures in the social security Disability Insurance (DI) program. The DI program is already in financial difficulty (it is forecast to become insolvent in 1997 or sooner), and raising the retirement age would increase its costs further, as elderly workers with significant impairments would file for DI benefits rather than wait to attain a more distant retirement age. Also, because early retirement benefits would be subject to higher actuarial reductions, they would become relatively less attractive than disability benefits.

CRS Report for Congress

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Means-Testing Social Security Benefits: An Issue Summary

Geoffrey Kollmann
Specialist in Social Legislation
Education and Public Welfare Division

Since the beginning of social security, benefits have been paid regardless of a recipient's economic status (i.e., his or her other income and assets). This feature was deliberately incorporated into the program's design, in large part to make it more universally acceptable. Because the program was financed by a mandatory tax on a person's earnings, and the amount of these taxable earnings determined the amount of the eventual benefit, a linkage was established between taxes paid and benefits received. This fostered a perception that social security benefits were not a Government transfer payment, but rather something that the individual had gained as an "earned right."

Although occasionally some analysts questioned this arrangement, it has prevailed. Social security became classified as an "entitlement" program, one in which individuals automatically receive benefits if they meet certain eligibility requirements. A crisis in social security's financing in the late 1970s and early 1980s, however, raised the latent issue of why high-income people should receive full benefits that they did not really "need." This question had special force because social security benefits at the time were totally tax-free. Subsequently, in legislation to resolve the program's financing problems, Congress voted in 1983 to subject part of the benefits of higher income recipients to the income tax.

This did not end the debate. As Federal budget deficits continued to mount in the past decade, interest has grown in slowing the growth of entitlement programs. Some of these programs are explicitly "means tested"; that is, they take into account a person's income and assets in determining eligibility for benefits and their amount. Means testing is based on the premise that Government aid should be targeted on poorer segments of the population, and not available to the wealthy. Because social security is the biggest entitlement program, means testing its benefits potentially would produce large savings. Also, because the income tax is structured to exclude most poor people from taxation, many observers view taxation of benefits as an *indirect* means test. For reasons of tax equity and relative administrative simplicity, some favor taxing a greater share of social security benefits as a way to better align benefits with need without direct means testing. (For arguments for and against increased taxation of benefits, see *Taxing Social Security Benefits: A Fact Sheet*, CRS Report for Congress No. 92-811 EPW).



Arguments for means testing. Proponents of means testing assert that the Nation's fiscal problems demand that all Government spending be examined for ways to cut costs. They regard social security as like other entitlement programs and say it should be given the same treatment. They maintain that although the program has often been portrayed as a kind of annuity system in which benefits are the return of taxes paid, in reality the program redistributes income among various groups, e.g., it especially rewards families with dependents, low-paid and short-career workers, and past and current recipients. They support their argument that the program is a Government transfer payment with calculations that show that past and current recipients receive substantially more in benefits than the value of the social security taxes they paid. They reject the idea that social security conveys a sort of contractual right. They point out that the Supreme Court has ruled that Congress may change benefit levels for reasonable purposes, and say that the Nation's chronic fiscal crises fit that criterion.

Proponents of means testing maintain that it is the fairest way to impose sacrifice, i.e., on those who can afford it. They assert that many social security recipients have high incomes--the Congressional Budget Office (CBO) estimates that 4.4 million have annual incomes of over \$50,000--and can afford benefit cuts to reduce Government spending. It has also been argued that because social security provides less than 35 percent of the incomes of the wealthiest 40 percent of recipients, they still would remain reasonably well-off and much above the poverty line if their benefits were reduced. However, as this latter group receives almost half of social security's annual benefit payments of \$300 billion, the savings generated would be substantial.

Arguments against means testing. Opponents of means testing see it as a fundamental breach of social security principles. Benefits have always been paid regardless of a person's economic circumstances. To means-test benefits, opponents argue, would make social security similar to welfare. It would weaken a primary reason for the general support of the program by the public--that people believe they have paid for their benefits and are not receiving a Government "handout."

Opponents say means testing is unfair on several counts. First, it would break an "implied compact" because workers paid a lifetime of taxes in the expectation of promised benefits. Second, social security is not contributing to budget deficits--in fact, it is producing surpluses. Third, social security has always been described as a "floor of protection" upon which other forms of retirement income, such as savings, should be built. To link benefits to the financial status of recipients would not only contradict this concept, it would penalize people who did as the Government had urged. In the long run, it would discourage people from saving because additional resources could disqualify them from receiving full social security benefits. Fourth, regardless of their economic status, recipients are accustomed to a certain level of income and once retired cannot readily adjust to new rules, especially as they cannot change past work and savings decisions. Finally, opponents argue that direct means testing is intrusive and administratively cumbersome. Recipients would be required to submit annually to a "demeaning" accounting of income and resources. They say that overseeing this accounting would entail a large bureaucracy, and argue that the concomitant administrative costs would erode the savings means testing would provide.

CRS Report for Congress

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Social Security as an Independent Agency: A Fact Sheet

David Koitz
Specialist in Social Legislation
Education and Public Welfare Division

The Social Security Administration (SSA) is an agency of the Department of Health and Human Services (HHS), and the Commissioner of Social Security reports to the Secretary of that Department. As an employer, SSA is the largest agency within HHS and the ninth largest within the Federal Government. There has been interest in Congress since the early 1980s in legislation that would separate SSA from HHS and establish it an independent agency.

Arguments for and against the idea: Interest in making SSA independent dates back to the early 1970s, when social security's impact on fiscal policy was made more visible through the inclusion of the program in the Federal budget. The calls for independence increased in the 1982-1984 period as the program was repeatedly brought up in congressional budget discussions. Seeing it as unique among social programs because of its self-financing nature and "implied compact" with the Nation's workers to pay "earned" benefits, proponents of independence want to insulate social security from everyday fiscal policy decisions. They say this outcome would be more likely to occur if SSA were run by an independent bipartisan board. They maintain that independence would increase the stature of the agency, leading, in turn, to more continuity of top management and a better-run organization. They contend that making the agency independent and adopting other measures to insulate it from political and budgetary discussions are needed to reassure the public about social security's long-run survivability.

Opponents of independence argue that social security takes in too much revenue and spends too much to be isolated from policy choices affecting other social programs covered by the HHS umbrella, and that its financial implications for the economy and the segment of society it serves are too large to permit it to escape the "hard" choices of fiscal policymaking. They maintain that social security is by definition a social program—not a contractual pension system—and should be continuously evaluated in conjunction with other economic and social functions of the Government. Some even suggest that making SSA independent goes in the wrong direction in organizing the executive branch, arguing that all Federal income security programs need to be better coordinated through the creation of a broadscale agency or cabinet department of income security in which SSA would be a component. They further believe that changing the organizational status of the agency will not necessarily resolve SSA's administrative issues, which are heavily influenced by ongoing policy changes to its programs resulting from legislation and court decisions.



Legislative action: Since 1986, a number of attempts have been made in Congress to make SSA an independent agency. None has succeeded. Past Administrations generally have opposed the idea, and a disagreement has persisted between the House and Senate over how such an agency should be administered. The House has preferred an approach under which an independent SSA would be run by a three-member bipartisan board; the Senate has preferred an approach where the agency would be run by a single administrator. In past Congresses, the House passed its version a number of times and the Senate Finance Committee approved alternative versions. In the 102d Congress, the House passed its version again and the Senate Finance Committee endorsed its version. However, the Finance Committee's bill was not taken up by the full Senate before the Congress adjourned sine die, and the measure lapsed.

For further information, see U.S. Library of Congress. Congressional Research Service. *Social Security: The Independent Agency Question*. Issue Brief No. IB86120, by David Koitz. Washington, 1992 (continually updated); and *What Would It Mean To Make the Social Security Administration an Independent Entity?* CRS Report for Congress No. 89-309 EPW, by David Koitz. Washington, 1989.

CRS Report for Congress

Congressional Research Service • The Library of Congress

Social Security Tax Debate: A Fact Sheet

David Koitz and Geoffrey Kollmann
Education and Public Welfare Division

The social security tax rate is higher than needed to meet today's social security costs. The resulting excess taxes are deposited in the U.S. Treasury along with all other taxes and are accounted for through the crediting of Federal bonds and related securities to the social security trust funds. Various proposals offered by Senator Moynihan and others during the past few years to bring

the rate more in line with actual costs reopened the debate about how social security should be financed and treated in the Federal budget and whether social security taxes should be cut to stimulate the economy. Senator Moynihan proposed a "pay-as-you-go" social security system under which the social security tax rate first would be cut from 6.2 percent (the current rate for employee and employer each) to 5.1 percent or 5.2 percent. Beginning in 2010, it would be raised gradually to an eventual level of 8.1 percent to keep pace with steep cost increases arising from the retirement of the post-World War II baby boomers and subsequent generations.

The debate: Support for the idea of cutting the tax rate originally arose from the complaint that surplus social security taxes were "masking" the Federal deficit and being spent on other programs. It also came from those who see social security taxes as regressive, some of whom wanted to force policymakers to consider increasing income taxes. Others contrasted a social security tax cut to cuts being sought in the capital gains tax—i.e., more tax relief would go to workers if social security taxes were reduced—and argued that a social security tax cut would increase consumer spending and thereby help stimulate the sluggish economy. Yet others contended that if the surpluses were allowed to continue, pressure would mount to liberalize social security benefits thereby adding to the system's long-range cost. They wanted to remove this temptation and, at the same time, give the public a clearer perception of the higher taxes the system will need in the next century to meet the benefits already promised under current law.

Social Security Tax Rates

	Employee & employer, each	Self-employed*
Social security**	6.20%	12.40%
Hospital insurance	1.45	2.90
Total	7.45	15.30

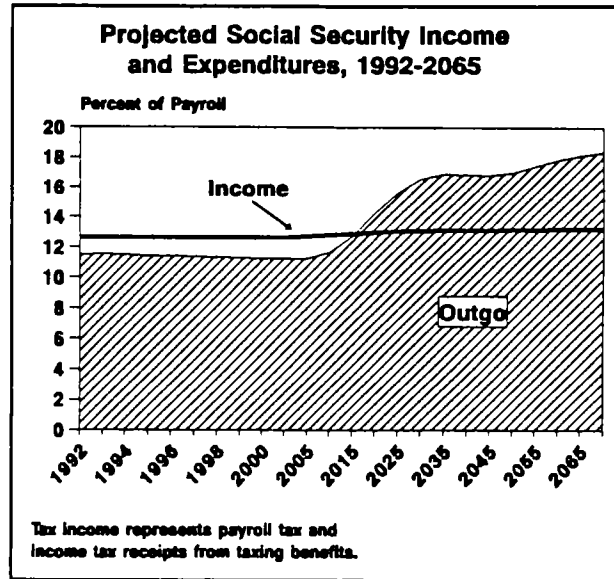
* One-half of self-employment taxes are deductible for income tax purposes.

** Has two parts: one for Old Age and Survivors Insurance and another for Disability Insurance.



Critics pointed out that without making up for the revenue loss through spending reductions or increasing other taxes, the immediate reduction in social security revenues would increase the amount of money the Government must borrow from financial markets and thereby reduce the amount of resources available for private investment. They complained that the tax cut would impair the Nation's savings rate, already too low in the view of many economists. They asserted that the surplus social security receipts should

be used to reduce the budget deficit on the grounds that the Government then would borrow less, making more money available for investment in the economy. With regard to the tax cut's immediate impact on the economy, they argued that the stimulative effects would be short-lived. They reasoned that the higher Government borrowing caused by the cut eventually would put pressure on financial markets and lead to higher interest rates. They further argued that if the economic assumptions upon which the tax cut were based proved to be optimistic, the system's financial solvency could be threatened.



Legislative action in the 101st and 102nd Congresses: Although the Senate leadership twice permitted Senator Moynihan to bring up his measure for a vote, once in 1990 and again in early 1991, both times it was set aside because of procedural objections (the first time because it violated rules under the budget act--it would have cut social security taxes without offsetting spending reductions or other tax increases--and the second time because of a tabling motion). Later in 1991, however, as the recovery from the recession weakened, new calls were made for tax cuts to stimulate the economy. Among them was a package of tax changes proposed by House Ways and Means Committee Chairman Rostenkowski that included income tax credits based on the level of one's social security taxes. Social security taxes were not to be affected directly. Early in 1992, the House passed a modified version of that package (H.R. 4210), including the tax credit idea. An alternative tax bill passed by the Senate did not include the proposal, but a scaled-down version of it was included in a compromise bill agreed to by House and Senate conferees. The proposal died, however, when President Bush vetoed the bill on March 20, 1992.

For additional information, see: U.S. Library of Congress. Congressional Research Service. *Social Security Tax Debate*. Issue Brief No. IB90033, by David Koitz and Geoffrey Kollmann. Updated regularly; and *The Social Security Surplus: A Discussion of Some of the Issues*. CRS Report No. 88-709 EPW, by David Koitz. Nov. 21, 1988.

CRS Report for Congress

Congressional Research Service • The Library of Congress

Social Security's Treatment Under the Federal Budget: A Fact Sheet

David Koitz
Education and Public Welfare Division

The treatment of social security in the Federal budget is often confusing. In 1990, Congress excluded the program from calculations of the budget and largely exempted it from procedures for developing and controlling the budget. However, because social security represents 20 percent of Federal spending and 28 percent of Federal revenues, it often is included in summaries of the Government's financial flows. It also is confusing because people mistakenly perceive that the program's removal from the budget calculations changed how its funds are handled. It did not; as has been the practice since social security's inception, its taxes continue to be deposited into the Federal treasury (with appropriate crediting of Federal securities to its trust funds) and its expenditures continue to be paid from the treasury.

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

Federal Budget (\$ in billions)				
	With social security on budget		With social security off budget	
	FY 1991	FY 1992	FY 1991	FY 1992
Receipts	1,054	1,092	760	789
Outlays	1,324	1,382	1,083	1,130
Deficit	269	290	323	341

Source: Final Treasury Statement for FY 1992.

Beginning in the late 1970s, financial problems confronting social security and concern over its growing costs led to enactment of a number of benefit cutbacks in 1980, 1981, and 1983. However, because the Federal budget deficit remained large, interest in curbing social security spending continued. This routine consideration of social security constraints led to concerns that cuts in social security were being proposed for budgetary purposes rather than programmatic ones. In response, a series of measures were enacted in 1983, 1985, and 1987 making the program a more distinct part of the budget and permitting floor objections (points of order) to be raised against budget bills containing social security changes.

As social security surpluses emerged in the late 1980s, critics argued that they were masking the size of the budget deficits. As a result, in 1990 Congress excluded the program

from calculations of the budget and largely exempted it from procedures for developing and controlling the budget.¹ In so doing, however, it excluded social security from procedural constraints designed to discourage measures that would increase the deficits. Concerned that this would encourage spending increases and tax cuts that could weaken social security's financial condition, Congress also included provisions permitting floor objections to be raised against bills that would erode the balances of the social security trust funds.

Budget rules pertaining to social security: Two key elements of the budget process are explicit dollar limits on discretionary spending (covering mostly programs requiring annual appropriations) and a "pay-as-you-go" rule that requires that increases in direct spending (covering mostly entitlement programs) and/or cuts in revenues must be offset by other changes so as not to increase the deficit. For FY 1994-95, there also are overall deficit limits. If the spending limits, "pay-as-you-go" rule, or deficit targets are violated, the President may be required to issue so-called sequestration orders (spending cuts) to bring spending down to the limits. Social security is not included in these calculations and is exempt from any potential sequestration, with the exception of administrative expenses (which are counted as discretionary spending). The law further permits floor objections to be raised against budget bills that contain social security measures.

Rules to protect social security's financial condition: Under the old budget rules (i.e., before the 1990 Act) social security was included in calculations of the budget deficit. This had the effect of potentially thwarting attempts to expand its benefits or cut its taxes if they were not accompanied by measures to offset the cost or revenue loss. Floor objections could be raised against such actions if they violated the budget totals or allocations, and if enacted, other programs were potentially threatened with sequestration because the deficit would be made larger. In effect, the old process imposed a fiscal discipline on social security. Since the program is now exempt from the budget limits (excepting its administrative expenses), these fiscal constraints no longer apply. In their place are rules intended to make it difficult to bring up measures for a vote that would weaken the program's financial condition.

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

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

¹This was done as part of the budget process reforms contained in Budget Enforcement Act, which was included in the Omnibus Budget Reconciliation Act of 1990, P.L. 101-508.

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Constraining Social Security Cost-of-Living Adjustments: A Fact Sheet

David Koitz
Education and Public Welfare Division

Under present law, social security benefits are increased automatically once a year if the cost-of-living rises. The increase is determined using the Bureau of Labor Statistics' Consumer Price Index for Wage Earners and Clerical Workers (CPI-W). Under procedures prescribed by law, the average CPI-W for the third calendar quarter of the year of the latest automatic increase is compared to the average CPI-W for the third quarter of the following year. If the price index rose by 0.1 percent or more, a cost-of-living adjustment (COLA) is triggered for the following December equal to the increase. The COLA first appears in the following January's checks (social security checks reflect benefits due for the preceding month). The latest COLA of 3 percent became payable in January 1993 at a first year cost of \$8.6 billion.

Recently, proposals to constrain social security COLAs have been suggested to help resolve the Government's fiscal problems. Eliminating a 3 percent COLA for 1 year, for instance, would save an estimated \$40 billion in Federal outlays over 5 years. Other ideas raised recently or in the past include reducing the COLA by 1 or 2 percentage points for a number of years, paying a full COLA on only a portion of a person's benefits, requiring that the cost-of-living rise by a given amount to trigger a COLA (e.g., 3 or 5 percent), and delaying the COLA's effective date (e.g., for 6 months, or perhaps making it effective every 2 years rather than annually).

There is some confusion about how a social security spending constraint would help with the Government's fiscal problems. People ask, "If social security has its own trust funds, how does limiting its spending help with the Government's deficit?" The answer lies with the fact that although social security's taxes and spending are accounted for through trust funds, its taxes are deposited in the U.S. treasury and its payments are made from the treasury (the trust funds are credited and debited with Federal securities accordingly). Hence, if social security spending is reduced (from what it would otherwise be), the treasury spends less, and in a period when the Government is running an overall deficit, the treasury does not have to borrow as much from financial markets. This, in turn, leaves more money in financial markets for private investment.

Arguments for constraining the COLA: Proponents of constraining the COLA argue that social security spending (\$305 billion in FY 1993, representing 20 percent of all Federal spending) is too large to ignore if the Government's fiscal problems are to be resolved. While the program is self-financed through a payroll



tax, the benefits people receive are not derived directly from the taxes they pay (for example, no portion of the taxes is earmarked for COLAs), COLAs were not part of the original design of the program, and they add to a benefit package that for most current recipients represents far more than they paid in taxes while they worked. Proponents argue that limiting the COLA is an equitable way to reduce spending because it spreads the burden over all recipients. No one segment of the recipient population is asked to shoulder the burden. They argue that it would be difficult to gain consensus to restrain COLAs and make cuts in other Government programs if social security is left untouched, and that a large reduction in the deficit can be made only when the public perceives that sacrifices are made by all. They maintain that constraining a COLA is not the same as cutting benefits as other proposals would, since it merely precludes an increase (or part of an increase) from taking effect. They further contend that many low-income recipients would have the income loss from not receiving the COLA made up through higher payments from welfare programs such as Supplemental Security Income. Those who argue for a COLA delay point out that it has been done before (in 1983), and the public by and large accepted it. Finally, some proponents assert that, in the long run, reductions in social security spending probably will be necessary anyway, as the program is projected to become insolvent in 2036 (the disability part could become insolvent as soon as 1996)--sooner or later these long-run problems will have to be addressed with possibly more fundamental changes than are currently being debated.

Arguments against constraining the COLA: Opponents of constraining the COLA argue that it is a "cut" because the purchasing power of benefits would not be maintained, and that it would be particularly harmful to the poor who have difficulty absorbing any income loss. Recent survey data show that about 4.5 million recipients (13 percent) are poor, and about 2.7 million (8 percent) are near poor (i.e., have incomes no more than 25 percent above the poverty level). They point out that foregoing a COLA of, say, 3 percent, would move about 324,000 people below the poverty line. While recognizing that welfare programs might offset the loss for some, they maintain that many are ineligible for other benefits because their incomes are too high or they have too many assets. They emphasize that social security represents 37 percent of the income of the elderly and that for 13 percent of recipients, social security is their entire income. Thus, many would not be able to adjust (e.g., by working more). Some argue that if social security is to be made a part of deficit reduction, it should be done by increasing the taxation of social security benefits since low-income recipients would not be affected. Others maintain that social security should not be touched at all for budgetary reasons, arguing that it is different from other Government activities: it is self-financed through payroll deductions; it is running a surplus of receipts; and the public perceives that these taxes lead to benefits under a implied compact between the Government and the Nation's workers. They fear that once the ice is broken and social security COLAs become part of the "budget solution," it will be hard to break the temptation to do it routinely in future budget crises. They further point out that including social security in a deficit reduction package could derail it. Under the rules of the budget act, it is out of order to include social security in a budget reconciliation bill. Doing so could draw an objection against the entire bill that could threaten its passage, since three-fifths of the Senate would have to approve of setting the objection aside.