Click for Table of Contents

98th Congress, 1st Session - - - - - - House Document No. 98-74

1983 ANNUAL REPORT—FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUND

TRANSMITTING

THE 1983 ANNUAL REPORT OF THE BOARD, PURUSANT TO SECTION 201(c) OF THE SOCIAL SECURITY ACT

JUNE 27, 1983.—Referred to the Committee on Ways and Means and ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
22-226 O WASHINGTON : 1983

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., June 24, 1983.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D.C.

SIR: We have the honor to transmit to you the 1983 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 43rd such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

Donald T. Regan

DONALD T. REGAN,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

Raymond J. Donovan

RAYMOND J. DONOVAN,
Secretary of Labor, and Trustee.

Margaret M. Heckler

MARGARET M. HECKLER,
Secretary of Health and Human Services, and Trustee.

JOHN A. SVAHN,
Commissioner of Social Security, and Secretary, Board of Trustees.

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., June 24, 1983.

THE PRESIDENT OF THE SENATE,
Washington, D.C.

SIR: We have the honor to transmit to you the 1983 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 43rd such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

DONALD T. REGAN,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.

RAYMOND J. DONOVAN,
Secretary of Labor,
and Trustee.

MARGARET M. HECKLER,
Secretary of Health and Human Services,
and Trustee.

JOHN A. SVAHN,
Commissioner of Social Security,
and Secretary, Board of Trustees.

Click on a Topic Below

CONTENTS

1983 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

I. THE BOARD OF TRUSTEES

The Federal Old-Age and Survivors Insurance Trust Fund, established on January 1, 1940, and the Federal Disability Insurance Trust Fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201(c) of the Social Security Act. Currently, the Board has three members, who serve in an ex officio capacity. These members are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. The Social Security Amendments of 1983 (Public Law 98-21, enacted into law on April 20, 1983) provide for the addition of two public members to the Board of Trustees. The two new members are to be nominated by the President for a term of 4 years, and are subject to confirmation by the Senate.

By law, the Secretary of the Treasury is designated as the Managing Trustee and the Commissioner of Social Security is designated as Secretary of the Board. The Board of Trustees reports to the Congress each year on the operation and status of the trust funds, in compliance with section 201(c)(2) of the Social Security Act. This report, the 43rd such report, is the annual report for 1983.

II. HIGHLIGHTS

This section summarizes the more important developments since the 1982 Annual Report was issued on April 1, 1982, and describes the major features of this year's report. These topics are discussed in more detail in later sections.

Financial status of the trust funds

As a result of the enactment of the Social Security Amendments of 1983, the estimates in this report indicate that the Old-Age, Survivors, and Disability Insurance program will be able to pay benefits on time for the next 75 years under all but the most pessimistic of the various sets of assumptions for which estimates are shown. Under the pessimistic assumptions, the estimates indicate that OASDI benefits can be paid on time through the second decade of the next century. The financial outlook shown in this report for the OASDI program is therefore dramatically improved as compared to that shown in the last annual report. The 1982 Annual Report indicated that interfund loans to the Old-Age and Survivors Insurance Trust Fund from the Disability Insurance and Hospital Insurance Trust Funds would be required in the second half of 1982, and that by July 1983 OASI benefits could not be paid on time, in the absence of corrective legislation. The 1982 Annual Report also showed a long-range actuarial deficit of 1.82 percent of taxable payroll under the intermediate II-B set of assumptions over 75 years. That average deficit consisted of an average surplus of 0.64 percent of taxable payroll over the first 25-year subperiod, and average deficits of 1.68 and 4.41 percent over the second and third 25-year subperiods, respectively.

In November 1982, the first interfund loan was made to the OASI Trust Fund under the limited authority granted by Public Law 97-123. In December, more interfund loans were made. In total, $17.5 billion was borrowed—$5.1 billion from the DI Trust Fund, and $12.4 billion from the HI Trust Fund. As stated by the Trustees in the 1982 Annual Report, without such loans, OASI benefits could not have been paid on time beginning in November 1982. Even with such loans, benefits could not have been paid on time after June 1983, without corrective legislation.

The National Commission on Social Security Reform, which had been established by the President on December 16, 1981, issued its report on January 20, 1983. The Commission's recommendations formed the basis of two similar bills that were introduced in the Congress as H.R. 1900 in the House of Representatives and S. 1 in the Senate. The Conference Committee agreement on the House and Senate bills was passed by both Houses of the Congress on March 24. President Reagan signed the Social Security Amendments of 1983 into law (Public Law 98-21) on April 20, 1983.

The improved financial status of the OASDI program is achieved through the increases in income and decreases in outgo that will result from the 1983 amendments. For the first time in 3 years, the short-range projections in the annual report indicate that OASI and DI benefits will be paid on time in the short range and for many years thereafter. For the first time in a decade, the current intermediate projections indicate a 75-

year actuarial balance between income and outgo, on the basis of the alternative II-B assumptions. This average balance consists of average surpluses of 1.83 and 0.32 percent of taxable payroll over the first and second 25-year subperiods, respectively, and an average deficit of 2.08 percent over the third 25-year subperiod. Thus, the actuarial balance is a moving average, and continuing review of the financing of the OASDI program is necessary.

Four sets of financial projections are shown in this report, to indicate future income and outgo under a broad range of conditions which are described in the section entitled "Economic and Demographic Assumptions." As in recent annual reports, one set of assumptions is designated as "optimistic" and another is termed "pessimistic." The particular economic and demographic assumptions in each set are so characterized depending on whether they have a favorable or unfavorable effect on the financial status of the trust funds. Two alternative "intermediate" sets of assumptions are used: alternative II-A and alternative II-B. These intermediate sets share the same demographic assumptions. However, alternative II-A assumes future economic performance resembling that of the more robust recent economic expansions; alternative II-B assumes economic performance resembling less robust economic expansions. This presentation illustrates the beneficial effect on the financial status of the trust funds of higher real growth in wages, higher employment, and lower inflation for any given set of demographic assumptions. Under the "pessimistic" assumptions, the economy is assumed to experience a delayed recovery from the recent recession, and slow but steady growth thereafter. As such, this set of assumptions represents a fairly adverse economic situation but not the worst conditions that could occur.

The operating deficits that began in 1975 reduced the assets of the OASI and DI Trust Funds to very low levels at the beginning of 1983. Certain provisions of the 1983 amendments will result in substantial immediate increases in those assets, but the rate of growth in 1984-87 is expected to be relatively small. As a result, the estimated trust-fund levels shown in this report are relatively low through 1987. Thus, although the OASDI program is estimated to be financially sound for many years into the future based on the assumptions in this report, the solvency of the program cannot be guaranteed under all circumstances. If actual economic conditions in 1984-87 are, on the average, worse (in regard to the effect on OASDI financing) than those assumed under alternative III, the OASDI program could again experience financial difficulties.

The financial projections are described in detail for three time periods of particular interest—short range, medium range, and long range. The estimates for the various time periods can be summarized as follows:

(a) Short range (1983-87)—Under the alternative II-A and II-B assumptions, expenditures from the OASI Trust Fund are expected to slightly exceed income in 1983; during 1984-87, income is expected to exceed expenditures in each year. Under the more optimistic alternative I assumptions, income exceeds expenditures in every year. Under the less favorable alternative III assumptions, OASI expenditures would exceed income in both 1983 and 1984; the reverse situation would occur in 1985-87.

The excess of income over expenditures in the mid-1980's is expected to result in a gradual increase in the assets of the OASI Trust Fund. Under the first three alternatives, these increases would be sufficient to trigger the automatic interfund loan repayment provisions included in the 1983 amendments. Thus, during 1984-87 the OASI Trust Fund would begin to repay the amounts borrowed in 1982 from the HI Trust Fund. Only under the optimistic alternative I assumptions would full repayment of such loans be required by the end of 1987 under the automatic provisions; under alternatives II-A and II-B, the repayments to HI would not be required to be completed until 1988. Under the alternative III assumptions, no repayment of the HI loans would be required by law prior to 1988. The alternative III estimates shown in this report, however, assume full repayment in 1987. Without such repayment, as indicated in the concurrent 1983 Annual Report for the Hospital Insurance program, the HI Trust Fund would be depleted in 1987 under the alternative III assumptions.

Under all four sets of assumptions, the OASI Trust Fund would have sufficient assets to permit timely payment of benefits throughout this period. The level of assets relative to annual expenditures, however, would remain relatively low through about 1987, making the fund vulnerable to any severe economic downturn during this period. The short-range financial status of the DI Trust Fund is generally similar to that of the OASI Trust Fund. This represents a marked decline as compared with the status shown for the DI Trust Fund in the 1982 Annual Report. The change is attributable primarily to a reallocation of the OASDI payroll-tax rate between the two trust funds. This reallocation was included in the 1983 amendments in order to place the two funds in a similar financial position.

As noted in the concurrent 1983 Annual Report for the Hospital Insurance Trust Fund, under all but the optimistic set of assumptions, HI assets are expected to continue to decline relative to HI annual expenditures and the trust fund would be depleted by about the end of this decade without corrective legislation. The projection of the HI Trust Fund, and of the OASI, DI, and HI Trust Funds combined, are summarized in Appendix F. While the OASI and DI Trust Funds would have sufficient assets to permit loans to the HI Trust Fund, and prevent the HI fund's depletion within the next 10 years (under all four sets of assumptions), interfund loans are now permitted only through 1987, and any loans outstanding at the beginning of 1988 must be repaid within 2 years. Thus, the expected depletion of the HI Trust Fund could not be prevented or delayed through use of the present interfund borrowing provisions.

(b) Medium range (1983-2007)—Under the four alternative sets of assumptions, average annual costs for the OASDI program during the 25-year projection period range from 9.22 to 11.44 percent of taxable payroll, while average income ranges from

12.45 to 12.53 percent. Thus, the projected medium-range actuarial balance is a surplus varying from 3.23 to 1.08 percent of taxable payroll. As shown in Appendix F, the medium-range actuarial balance for the combined OASI, DI, and HI programs is a surplus of 1.37 percent of taxable payroll under alternative II-A and 0.68 percent under alternative II-B.

(c) Long range (1983-2057)—Over the 75-year period, annual costs for the OASDI program are projected to average from 9.81 to 16.56 percent of taxable payroll, depending on the assumptions. During this period, average income ranges from 12.73 to 13.04 percent of taxable payroll. Thus, the projected long-range actuarial balance varies from a surplus of 2.92 percent of taxable payroll under the optimistic alternative I assumptions to a deficit of 3.51 percent of taxable payroll under the pessimistic alternative III assumptions. Under alternatives II-A and II-B, respectively, average surpluses of 0.84 and 0.02 percent of taxable payroll are projected. As shown in Appendix F, the long-range actuarial balance for the combined OASI, DI, and HI programs is a deficit of 3.88 percent of taxable payroll under alternative II-B. This deficit consists of an average surplus of 0.68 percent of taxable payroll over the first 25-year subperiod, and average deficits of 3.86 and 8.47 percent over the second and third 25-year subperiods, respectively.

Such 75-year projections are subject to considerable uncertainty and should be interpreted, not as precise forecasts of expected program operations, but as indications of how the trust funds would operate under present law if the assumed economic and demographic conditions actually materialize. Despite their inherent uncertainty, these projections, and the patterns of surpluses and deficits that they reveal in the various subperiods, provide a valuable picture of the long-range financial obligations of the Social Security program and information on how program costs would respond to changing conditions.

Trust fund operations during fiscal year 1982

(a) The total assets of the OASI and DI Trust Funds declined by $7.9 billion during fiscal year 1982, to $19.3 billion on September 30, 1982. Income amounted to $148.0 billion and expenditures totaled $156.0 billion. Disbursements from the OASI Trust Fund exceeded income by $11.3 billion, and the assets of the OASI Trust Fund declined to $12.5 billion by the end of the fiscal year. The assets of the DI Trust Fund increased by $3.4 billion, to $6.8 billion on September 30, 1982.

(b) The total number of persons receiving monthly benefits under the OASDI program was 35.6 million at the end of September 1982. An estimated 115 million workers had earnings in calendar year 1982 that were taxable and creditable toward benefits under the program.

(c) The trust funds earned interest amounting to $2.1 billion during fiscal year 1982. The effective annual rate of interest earned by the combined assets of the OASI and DI Trust Funds during the

12 months that ended June 30, 1982 was 10.3 percent. During this same period, the average interest rate on new securities purchased by the trust funds was 13.8 percent.

(d) Administrative expenses for the OASDI program in fiscal year 1982 were $2.0 billion, which represented 1.3 percent of total benefit payments made during the year.

Developments since the last annual report

(a) An automatic cost-of-living benefit increase of 7.4 percent became effective for June 1982. (The statement announcing the determination of this increase is shown in Appendix C.) An increase of 3.5 percent will become effective for December 1983, as recently determined and announced.

(b) Effective for 1983, the contribution and benefit base was increased from $32,400 to $35,700. The annual exempt amount under the retirement earnings test was increased from $6,000 to $6,600 for beneficiaries aged 65 through 69, and from $4,440 to $4,920 for beneficiaries under age 65. Beginning in 1983, the retirement earnings test does not apply to beneficiaries aged 70 and over; prior to 1983, the test was not applicable at ages 72 and over. The amount of annual earnings required for a quarter of coverage was increased from $340 to $370. (The statement announcing these changes is shown in Appendix D.)

III. NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

On December 16, 1981, the President established the National Commission on Social Security Reform (by Executive Order 12335). The Commission consisted of 15 members—five selected by the President, five by the Majority Leader of the Senate, and five by the Speaker of the House of Representatives. The Commission presented its final report to the President on January 20, 1983. The report included numerous recommendations designed to alleviate the short-range and long-range financial problems of the OASDI program. The recommendations in the Commission's "consensus package" formed the basis of the Social Security Amendments of 1983 (Public Law 98-21), although several of the proposals were modified somewhat. The key provisions of the new legislation are summarized in the next section.

IV. SOCIAL SECURITY AMENDMENTS SINCE THE 1982 REPORT

Since the 1982 Annual Report was transmitted on April 1, 1982, several laws affecting the OASDI program have been enacted. The legislative changes having a significant effect on the financial status of the program are described below.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248, enacted into law on September 3, 1982) modified the Medicare program in several significant ways (including the coverage, under the HI program, of the earnings of all Federal civilian employees, beginning January 1, 1983) but made only the following changes in the OASDI program:

1. Some independent contractors, including real estate agents and certain other direct sellers, had been classified as employees for Social Security tax purposes. The new law reclassifies them as self-employed persons.
2. The law improves the reporting of tip income for income tax and Social Security tax purposes.

Public Law 97-455 (enacted January 12, 1983) included the following significant modifications to the OASDI program, most of which involved disability benefits:

1. The law provides for the continued payment of disability benefits during the appeals process, in certain situations following a decision to terminate such benefits. Under previous law, benefits ended with the second month following the month of termination. Under the new law, such benefits can be continued, at the option of the beneficiary, through the earliest of (a) the month preceding the month in which a decision on the appeal is rendered by an Administrative Law Judge, (b) the month preceding the month in which no request for a hearing by an ALJ is pending, or (c) June 1984. If the decision by the ALJ supports the initial decision to terminate the benefits, any payments received under this provision are overpayments and subject to recovery. This temporary provision applies only to termination determinations which are made before October 1, 1983.
2. The Secretary of Health and Human Services is granted authority to waive, on a State-by-State basis, the statutory requirements for periodic reviews of the continued eligibility of disabled beneficiaries.
3. The law requires that an opportunity for a face-to-face hearing be provided, beginning no later than January 1, 1984, at the first appeal stage (the reconsideration level) for appeals of decisions to terminate disability benefits.
4. The law modified and extended the exception to the offset of Social Security auxiliary and survivor benefits for persons who also receive governmental pensions based on noncovered employment (this provision was further modified by subsequent legislation).

The most significant legislation since the issuance of the 1982 Annual Report was the Social Security Amendments of 1983 (Public Law 98-21, enacted April 20, 1983). From an actuarial cost standpoint, the important provisions of this law are the following:

1. *Coverage of newly hired Federal employees*
Compulsory coverage under the OASDI program will be provided for Federal civilian employees of the executive, legislative, and judicial branches hired after 1983. (Beginning January 1, 1983, coverage under the HI program had already been provided for all Federal civilian employees, including those hired before 1983, under the Tax Equity and Fiscal Responsibility Act of 1982. Military service has been covered under the OASDI program since 1957 and under the HI program since 1966.) Compulsory coverage will also be provided for Federal hires with previous periods of Federal service provided that the break in service exceeded 365 days. Compulsory coverage will be provided for current employees of the legislative branch who are not participating in the Civil Service Retirement System as of December 31, 1983; for all Members of Congress; for the President and the Vice-President; for Federal judges; and for most high-level political appointees in the executive branch. The retirement pay of retired Federal judges is also covered for periods in which judicial duties are performed.

2. *Coverage of employees of nonprofit organizations*
The earnings of all current and future employees of private tax-exempt nonprofit organizations will be covered after 1983. Under prior law, work performed for such organizations was excluded from coverage unless the organization waived its exemption from Social Security taxation. Employees affected by this provision will be deemed to be fully insured for Social Security benefits if the following conditions are met:
   (a) On January 1, 1984, the employee is age 55 or older and is employed by a nonprofit organization to which coverage is extended solely as a result of Public Law 98-21, and
   (b) The employee acquires after December 31, 1983, a specified number of quarters of coverage which depends on the employee's age, as follows:

Age on January 1, 1984	Quarters of coverage required
60 or over	6
59	8
58	12
57	16
55 or 56	20

In addition, the new law provides that Social Security coverage for employees of nonprofit organizations may not be terminated on or after March 31, 1983.

3. *Prohibited termination of coverage of State and local government employees*
The new law prohibits States from terminating coverage of State and local government entities if the termination had not become effective before the date of enactment (April 20, 1983).

4. *Six-month delay in cost-of-living adjustment*
The effective month for automatic cost-of-living increases in OASDI benefits is changed from June to December of each year, beginning in 1983. The period over which the increase in the Consumer Price Index (CPI) is measured to determine the benefit increase for December 1983 is unchanged from previous law (the period is from the first quarter of 1982 through the first quarter of 1983). However, the benefit increases in 1984 and later years will be based on the CPI increase from the third quarter of the previous year through the third quarter of the year in which the benefit increase becomes effective.

5. *Modification of cost-of-living increases during periods of low trust fund balances (stabilizer provision)*
If the combined assets of the OASI and DI Trust Funds, as a percentage of estimated annual expenditures, fall below a specified level, automatic benefit increases will be limited to the lower of the increases in wages or prices. This specified level is 15 percent for benefit increases in 1984 through 1988, and 20 percent for benefit increases in 1989 and later. If assets, excluding amounts borrowed from the HI Trust Fund, fall below that level, the automatic benefit increase will be the smaller of (1) the increase in prices as measured by the CPI (the same benefit increase that would apply if the level of trust fund assets were not below the specified levels of 15 percent or 20 percent), or (2) the increase in average wages in the previous year as compared with the second preceding year—which is used for purposes of adjustments in the contribution and benefit base and in other wage-indexed program amounts.

The new law also provides for "catch-up" benefit increases for those beneficiaries whose benefit increases were reduced as a result of this provision. Specifically, when the assets of the combined OASI and DI Trust Funds, excluding borrowed amounts, exceed 32 percent of estimated annual expenditures, additional increases in benefits are provided, to the extent that funds are available above the 32-percent trust fund level, until benefits are increased to the level at which they would have been if all increases had been based on CPI increases.

6. *"Normalized" tax transfers*
The new law provides that the estimated amount of Social Security taxes to be received each month shall be transferred from the general fund of the Treasury to the trust funds on the first day of the month, instead of on a daily basis as taxes are collected. This provision, which essentially allows short-term loans by the general fund to the trust funds, requires that the trust funds pay interest on such advance tax transfers. The net effect is to make funds available when needed to pay benefits, which are normally paid on the third of each month. The effects of this provision are discussed in later sections.

7. *Interfund borrowing reinstatement*
The new law reinstates the interfund borrowing authority that

expired at the end of 1982 and extends it through the end of 1987. The new law also adds certain requirements as to when loans can be made, when they must be repaid, and when interest must be paid. The effects of this provision are discussed in later sections.

8. *Elimination of windfall benefits for persons receiving pensions from noncovered employment*

The computation of OASDI benefits will be modified for most workers (with certain exceptions) who first become eligible after 1985 for both a pension based wholly or in part on noncovered employment and a retired- or disabled-worker's benefit under Social Security. The modification replaces the 90-percent factor generally applied to average indexed earnings in the first band of the benefit formula by a factor of 40 percent, after a phase-in period of 5 years (1986-90).

As an exception, the benefits for workers with 30 or more years of coverage (as defined for purposes of the special minimum benefit under the Social Security Act) will not be affected. For workers with 26, 27, 28, or 29 years of coverage, instead of 40 percent, the first factor of the benefit formula will be 50, 60, 70, or 80 percent, respectively.

The reduction in the Social Security benefit which results from this provision may not exceed one-half of the pro-rata portion of the pension which is attributable to noncovered employment after 1956.

Certain groups are exempted from the effects of this provision, as follows:

(a) Workers who are compulsorily covered on January 1, 1984, as a result of the new law. These include the small number of current Federal employees and all nonprofit employees covered solely because of the new law except those whose past employment for a nonprofit organization had been covered, but whose employment for that organization was not covered on December 31, 1983.

(b) Employees whose only pension based on noncovered employment is a Railroad Retirement pension.

9. *Increase in normal retirement age*

The normal retirement age (i.e., the earliest age at which unreduced retirement benefits can be received) will be gradually increased from age 65 to age 67. For persons attaining age 62 in 2000, the normal retirement age will be increased by 2 months—to age 65 and 2 months. In each succeeding year, the normal retirement age will be increased by 2 additional months until it reaches age 66 for persons attaining age 62 in 2005. The normal retirement age will then remain at age 66 for persons attaining age 62 through 2016. Beginning with persons attaining age 62 in 2017, the normal retirement age will again increase by 2 months each year, until it reaches age 67 for persons attaining age 62 in 2022 and later.

The minimum age of eligibility for reduced benefits will remain unchanged at age 62 (age 60 for widows and widowers). However, when the normal retirement age begins to increase, there will be corresponding increases in the amount of reduction for early retirement. The amount of reduction will be 5/9 of 1 percent for each of the first 36 months of early retirement (as under present law), and 5/12 of 1 percent for each month in excess of 36. Thus, for persons attaining age 62 during 2005-2016, for whom the normal retirement age will be 66, the reduced benefit payable at age 62 will be 75 percent of the PIA. For persons attaining age 62 in 2022 and later, for whom the normal retirement age will be 67, the reduced benefit payable at age 62 will be 70 percent of the PIA.

10. *Increase in delayed retirement credits*

Beginning with workers who attain age 65 in 1990, the increment for delaying retirement past the normal retirement age will increase by ½ of 1 percent every second year, from 3 percent per year of delayed retirement for workers attaining age 65 in 1982-89, until reaching 8 percent per year of delayed retirement for workers attaining normal retirement age (age 66) after 2008.

11. *Reduced withholding rate under the retirement earnings test*

Beginning in 1990, the benefit withholding rate under the retirement earnings test will be reduced from $1 for each $2 of earnings over the annual exempt amount to $1 for each $3 of excess earnings, for beneficiaries who have reached the normal retirement age (age 65 in 1990-99). When the normal retirement age begins to increase in 2000, the age at which the reduced withholding rate will apply will also increase.

12. *Taxation of Social Security benefits*

Beginning in 1984, as much as one-half of OASDI benefits (and railroad retirement tier 1 benefits) will be included in taxable income for taxpayers with incomes above certain base amounts. The sum of a taxpayer's (1) adjusted gross income, (2) tax-free interest income, and (3) one-half of OASDI benefits will be compared to a base amount of $25,000 for a single taxpayer, or $32,000 for a married couple filing a joint tax return. If the sum exceeds the base amount, the amount of benefits to be included in taxable income will be the lesser of:

(a) one-half of the excess of such sum over the base amount, or

(b) one-half of the amount of benefits received.

The revenue raised by this taxation of benefits will be automatically transferred to the OASI and DI Trust Funds.

The new law does not provide for indexing of the base amounts of $25,000 and $32,000. These amounts are, therefore, scheduled to remain the same in all future years.

13. *Changes in tax rate schedule*

The OASDI tax-rate increase scheduled for 1985 is advanced to 1984, and part of the increase scheduled for 1990 is advanced to

1988. Both the OASDI and HI tax rates on self-employment income are increased by making them equal to the corresponding combined rates for employees and employers, beginning in 1984.

For 1984 only, a tax credit of 0.3 percent of taxable wages (equal to the 1984 tax-rate increase for employees) will be allowed against the taxes paid by employees. Similarly, tax credits of 2.7 percent, 2.3 percent, and 2.0 percent will be allowed against taxes on self-employment income in 1984, 1985, and 1986-89, respectively.

Beginning in 1990, self-employed persons will be allowed to deduct from their net earnings from self-employment an amount equal to such income multiplied by one-half of the Social Security tax rate for the self-employed. The result will be multiplied by the entire tax rate for the self-employed, and that product will be the Social Security tax liability for the year (with the usual limitations imposed by the annual earnings base). Half of the Social Security tax liability will be deductible in computing Federal income taxes for the self-employed. The effect of this procedure will be to place self-employed persons in roughly the same position as employees in regard to their Social Security and Federal income taxes.

The allocation of the total OASDI tax rate between the OASI and DI Trust Funds is also modified by the new law.

14. *Acceleration of State and local tax collections*

The new law requires that, after 1983, the Social Security taxes due on the wages of employees of State and local government entities be deposited semi-monthly, within 15 days after the end of each 15-day period, rather than 30 days after the end of each month, as under previous law.

15. *Increase in benefits for certain surviving, divorced, and disabled spouses*

Four provisions of the new law will increase benefits payable to certain surviving, divorced, and disabled spouses. Most of the affected beneficiaries, present and future, are women.

The first provision will allow the continuation of benefits for disabled and surviving divorced spouses who remarry after becoming eligible for benefits. This provision is effective for benefits payable after 1983.

The second provision will change the indexing procedures used to calculate deferred benefits for surviving spouses of workers who die before attaining age 62. Under previous law, the earnings histories of such workers were indexed by wage increases to the second year preceding the year of death. Beginning with the year of death, benefits were indexed by increases in the CPI. The new law provides for wage indexing through the year in which the worker would have reached age 60, or 2 years before the survivor's eligibility for benefits, if earlier, whenever such indexing produces a larger monthly benefit amount. This provision is effective for newly eligible survivors after 1984.

The third provision will provide entitlement to benefits, after 1984, for divorced spouses when the former spouse is not receiving benefits. Under previous law, the former spouse on whose earnings record the benefits were payable had to claim benefits before his or her divorced spouse could claim benefits. Also, under previous law, if the former spouse claimed benefits but continued to work, the divorced spouse could have benefits withheld because of the retirement earnings test. The new law essentially permits independent entitlement.

The fourth provision will increase the benefits, after 1983, for any person who is or ever was entitled to benefits before age 60 as a disabled widow or widower. Previous law required that the initial benefits of such persons would vary from 50 to 71.5 percent of the primary insurance amount for ages at entitlement ranging from 50 to 60. The new law will provide a 71.5-percent benefit rate for all such beneficiaries.

16. *Modification to financing basis of noncontributory military service wage credits*

The new law changes the financing basis of noncontributory military service wage credits under the Social Security Act. These deemed wage credits generally had been financed through reimbursements by the general fund of the Treasury for the additional benefit payments and administrative expenses attributable to such wage credits, with adjustments for interest.

Under the new law, the additional past and future costs attributable to wage credits for military service before 1957, less the accumulated value of past reimbursements, was paid in a lump-sum transfer on May 20, 1983. For the deemed wage credits based on military service in 1957-83, a similar lump-sum transfer was made on the same date to reflect the differences, accumulated with interest, between what was actually paid in the past and what would have been paid if such deemed wage credits had been taxed at the combined employee-employer rate. For deemed wage credits based on military service after 1983, a transfer will be made on July 1 of each year in an amount equal to what would have been paid if such deemed wages in the year were taxed at the combined employee-employer rate.

17. *Reimbursements for unnegotiated checks*

The new law will provide reimbursement to the Social Security trust funds for all past and future benefit checks that remain uncashed 6 months after being issued. Under previous law, the total amount for all checks issued was deducted from the trust funds, and such unnegotiated checks were never reimbursed.

18. *Modification of public pension offset*

The new law provides that any person becoming eligible after June 1983 for both a pension based on noncovered governmental employment and a Social Security benefit as a spouse or widow(er) will have that Social Security benefit reduced by two-thirds of the amount of the noncovered pension. Previous law provided for offset by the entire pension amount.

19. *Taxation of contributions under certain salary reduction plans*
    The new law requires that employer contributions to salary reduction plans under Internal Revenue Code sections 401(k) and 403(b), and to certain nonqualified deferred compensation arrangements, will be taxable for Social Security purposes. The income-tax treatment of these contributions will not be affected. The provision is effective for contributions made after 1983.
20. *Suspension of benefits to certain nonresident aliens*
    The new law will suspend benefit payments to any nonresident alien receiving benefits or applying to receive them as an auxiliary or survivor beneficiary of an insured worker (whether or not the worker is a U.S. citizen), whenever such alien has been outside the United States for 6 consecutive calendar months. Alien auxiliary or survivor beneficiaries who can prove that they had lived in the United States for a total of at least 5 years during which their relationship with the insured worker was the same as the one on which eligibility for benefits is based would be exempt from this provision. The provision is effective with respect to any individual who becomes eligible for benefits after 1984.
21. *Expanded use of death certificates*
    The new law provides authority for the Secretary of Health and Human Services to contract with the States for death certificate information. This information will be used to prevent the erroneous payment of benefits to deceased individuals.
22. *Other changes*
    The new law includes many other provisions which do not have a significant impact from an actuarial cost standpoint on the OASDI program. Some of these provisions made minor or technical modifications to the Social Security Act, some require studies to be performed, and some affect such a small number of beneficiaries that the cost effect is negligible.

Details of these amendments can be found in documents prepared by and for the Congress. In particular, estimates of the financial effects of the new provisions are available in these documents. The financial projections shown in this report include the effects of these amendments.

V. NATURE OF THE TRUST FUNDS

The Federal Old-Age and Survivors Insurance Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. All the financial operations of the OASI program are handled through this fund. The Federal Disability Insurance Trust Fund is another separate account in the United States Treasury; it was established on August 1, 1956. All the financial operations of the DI program are handled through this fund.

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent authority on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the OASDI program, and (2) amounts deposited in each of them representing contributions paid by or on behalf of workers employed by State and local governments and by such employers with respect to wages covered by the program. All employees, and their employers, in employment covered by the program are required to pay contributions with respect to their wages. Employees are required to pay contributions with respect to cash tips, but employers are required to pay contributions on only that part of tip income deemed to be wages under the Federal minimum wage law. All covered self-employed persons are required to pay contributions with respect to their covered self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount. The contributions are determined first on the wages and then on any self-employment income within the annual maximum amount. An employee who pays contributions on wages in excess of the annual maximum amount (because of employment with two or more employers) is eligible for a refund of the excess employee contributions. The amount of benefits to which an individual (or his or her spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings over his or her lifetime. In computing benefits for almost all persons who first become eligible to receive benefits in 1979 or later, the earnings in each year are indexed to take account of increases in average wage levels. The maximum amount of earnings taxable in a year is also the maximum amount of earnings creditable toward benefits in that year (the contribution and benefit base).

The contribution rates applicable to taxable earnings in each calendar year, and the allocation of the rates between the two trust funds, are shown in table 1. For 1984 and later, the rates shown are those scheduled in present law (including the effects of Public Law 98-21). The contribution and benefit bases are also shown in table 1. The bases for 1975-78 were determined under the automatic-increase provisions in section 230 of the Social Security Act. The bases for 1979-81 were specified in the law, as amended in 1977. The bases for 1982-83 were again determined under the automatic-increase provisions, as will be the bases in 1984 and later.

TABLE 1.—CONTRIBUTION AND BENEFIT BASE AND CONTRIBUTION RATES

Calendar years	Contribution and benefit base	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1937-49	$3,000	1.000	1.000	—	—	—	—
1950	3,000	1.500	1.500	—	—	—	—
1951-53	3,600	1.500	1.500	—	2.2500	2.2500	—
1954	3,600	2.000	2.000	—	3.0000	3.0000	—
1955-56	4,200	2.000	2.000	—	3.0000	3.0000	—
1957-58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960-61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963-65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
1977	16,500	4.950	4.375	.575	7.0000	6.1850	.8150
1978	17,700	5.050	4.275	.775	7.1000	6.0100	1.0900
1979	22,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1980	25,900	5.080	4.520	.560	7.0500	6.2725	.7775
1981	29,700	5.350	4.700	.650	8.0000	7.0250	.9750
1982	32,400	5.400	4.575	.825	8.0500	6.8125	1.2375
1983	35,700	5.400	4.775	.625	8.0500	7.1125	.9375
Rates scheduled in present law:							
1984-87	(1)	5.700	5.200	.500	11.4000	10.4000	1.0000
1988-89	(1)	6.060	5.530	.530	12.1200	11.0600	1.0600
1990-99	(1)	6.200	5.600	.600	12.4000	11.2000	1.2000
2000 and later	(1)	6.200	5.490	.710	12.4000	10.9800	1.4200

[1]Subject to automatic increase.

All contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections, except for amounts received under State agreements (to effectuate coverage under the program for State and local government employees), which are deposited directly in the trust funds. The internal revenue collections are automatically appropriated to the trust funds on an estimated basis. The exact amount of contributions received is not known initially because contributions under the OASDI and HI programs and individual income taxes are not separately identified in collection reports received by the Department of the Treasury. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable as determined from reported earnings. Adjustments are also made to account for any refunds to employees (with more than one employer) who paid contributions on wages in excess of the contribution and benefit base.

Prior to May 1983, the internal revenue collections were transferred to the trust funds immediately upon receipt. In May 1983 and later, estimated total collections for each month are credited to the trust funds on the first day of the month. As the actual collections are received during the month, they are deposited in the general fund of the Treasury and remain there. The trust funds pay interest to the general fund to reimburse it for the interest lost because of this provision.

Beginning in 1984, OASDI benefits will be subject to Federal income taxes under certain circumstances. The proceeds from this taxation of benefits will be transferred to the trust funds, in advance, on an estimated basis, at the beginning of each calendar quarter, with no reimbursement to the general fund for interest lost as a result of the advance transfers. Subsequent adjustments will be made based on the actual amounts as shown on annual income tax records. The amounts appropriated from the general fund of the Treasury will be allocated to the OASI and DI Trust Funds on the basis of the additional taxes paid on the benefits from each fund.

Another source of income to the trust funds is interest received on investments held by the trust funds. That portion of each trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The Act provides that these obligations shall bear interest at a rate equal to the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month.

The income and expenditures of the trust funds are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the Railroad Retirement program and the OASDI program. Under these provisions, transfers between the Railroad Retirement Account and the trust funds are made on an annual basis in order to place each trust fund in the same position as it would have been if railroad employment had always been covered under OASDI.

Several other provisions in the Social Security Act also affect the income and expenditures of the trust funds. Income is affected by provisions for (1) payments from the general fund of the Treasury to the OASI and DI Trust Funds for any cost arising from the granting of noncontributory wage credits for military service prior to 1957, according to periodic determinations made by the Secretary of Health and Human Services; (2) annual transfers from the general fund of the

Treasury representing the amount of contributions that would have been paid on noncontributory wage credits for military service after 1956, if such credits had been treated as covered earnings; (3) annual reimbursements from the general fund of the Treasury to the OASI Trust Fund for any costs arising from the special monthly cash payments to certain persons who reached age 72 before 1968 and who generally are not eligible for cash benefits under other provisions of the OASDI program; (4) the receipt of unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through the funds; and (5) amounts charged to private employee benefit plans for providing the plans with detailed earnings information. In addition to the payment of benefits from the trust funds, the following expenditures are authorized: (1) costs of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability where such services contributed to their successful rehabilitation; (2) expenses incurred by the Department of Health and Human Services and by the Department of the Treasury in carrying out the provisions of title II of the Social Security Act and the provisions of the Internal Revenue Code relating to the collection of contributions; and (3) expenditures for construction, rental and lease, or purchase contract of office buildings and related facilities for the Social Security Administration.

The net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the trust funds.

The Social Security Act authorizes borrowing among the OASI, DI, and HI Trust Funds when necessary "to best meet the need for financing the benefit payments" from the three funds. The timing and amounts of the loans are largely at the discretion of the Managing Trustee, although no loans can be made after 1987. Loans may not be made from a trust fund if its assets (excluding any amounts borrowed) represent less than 10 percent of its current annual rate of expenditures. The law specifies that interest on a loaned amount will be paid monthly at a rate "equal to the rate which the lending Trust Fund would earn on the amount involved if the loan were an investment."

At the end of each year 1983-88, if the assets of the combined OASI and DI Trust Funds (including amounts borrowed) exceed 15 percent of the estimated outgo in the next year, such excess over 15 percent must be used to repay any outstanding loans from the HI Trust Fund. The same rule applies to loans from the OASI and DI Trust Funds to the HI Trust Fund, although no such loans are anticipated. In any case, all interfund loans must be completely repaid before 1990.