May 25, 2005

Projected Effects of Various Provisions on Social Security's Financial and Distributional Outcomes

Congressional Budget Office

The attached tables present projected changes to *financial* and *distributional* outcomes under various provisions. In keeping with CBO's mandate to provide objective, nonpartisan analysis, this document makes no recommendations.

The outcomes presented here are based on the Social Security trustees' 2004 demographic assumptions and CBO's January 2005 economic assumptions. They correspond to the outcomes that CBO released in March 2005.

These provisions are stylized concepts of various individual changes to Social Security. The results may be very sensitive to the exact implementation of any particular provision. If provisions are combined, significant interactions in the presented changes may occur. If the start date of a provision is delayed, the change in the effects could be disproportionate because of the large shift in demographics occurring over the next 30 years. In particular, trust fund exhaustion dates can be very sensitive to adjustments in provision details. Provisions that change scheduled benefits also change revenues through the income taxation of benefits.

Financial outcomes are presented relative to a scheduled baseline. The scheduled baseline assumes the Social Security trust funds have borrowing authority to pay scheduled benefits after the trust funds have been exhausted. Distributional outcomes are presented relative to both scheduled and current law baselines. The current law baseline assumes that all beneficiaries are subject to an across-the-board cut in benefits so that total projected outlays equal projected revenues once the Social Security trust funds are projected to be exhausted; similar cuts are applied under each provision in any years after the Social Security trust funds are projected to be depleted.

Financial outcomes include:

- Revenues as a share of GDP
- Outlays as a share of GDP
- Balances (revenues less outlays) as a share of GDP
- 75-year present value deficit as a share of GDP
- 75-year present value deficit as a share of taxable payroll (75-year actuarial balance)
- Crossover year—revenues from dedicated taxes first fall below outlays

- Exhaustion year—trust funds are projected to be depleted

Distributional outcomes, presented for selected 10-year birth cohorts and lifetime household earnings quintiles, include:

- First-year retired worker benefits
- Present value of all lifetime benefits
- Present value of all lifetime payroll taxes

Provisions considered include changes to:

1. Indexing of benefits
2. The benefit formula
3. Normal retirement age or actuarial adjustments
4. Cost-of-living adjustments (COLAs) for benefits
5. Payroll tax rates or taxable maximum
6. Benefits for low earners
7. Auxiliary benefits

Many other provisions are possible; these tables present the results for one set of various types of changes. However, there are no individual accounts considered here.

The appendix provides more details about how each provision would alter existing Social Security rules.

The analysis does not reflect any considerations of the potential effects on the macroeconomy which may occur under any of the various provisions.

Definitions of Key Terms:

Lifetime Earnings Quintile: Each individual is ranked by his or her lifetime household earnings. Individuals are then divided into five quintiles. The values shown are the averages for the bottom, middle, and top quintiles. (The values for the 2nd and 4th quintiles are not shown.) Lifetime household earnings equal the sum of real earnings over a given person's lifetime if they remain single in all years. In any year an individual is married, the earnings measure for that year is a function of his or her earnings plus his or her spouse's earnings (adjusted for economies of scale in household consumption). The individual's lifetime earnings is the present value of these annual amounts.

Birth Cohort: Individuals are grouped into 10-year cohorts. The 1960s birth cohort includes those born from 1960 through 1969; the 1980s cohort includes those born from 1980 through 1989; and the 2000s cohort includes those born from 2000 through 2009.

First-Year Benefits for Retired Workers: The average of retired worker benefits that would be received by workers eligible to claim Old-Age Insurance benefits at age 62 who have not yet claimed any other benefit. Benefits are computed assuming that all workers claim benefits at age 65 and are based only on earnings through age 61. Values are net of income taxes paid on benefits and credited to the Social Security trust funds.

Lifetime Benefits: The present value at age 60 of benefits received by an individual over a lifetime, including Old-Age and Disability worker benefits and Old-Age Spouse and Survivor benefits, net of income taxes paid on those benefits and credited to the Social Security trust funds.

Lifetime Payroll Taxes: The present value of both OASDI employer and employee taxes paid over a lifetime; under current law, the tax is 12.4 percent of taxable earnings.

Scheduled Benefits (Table 2) and Current-Law Benefits (Table 3): Under current law, all beneficiaries are subject to an across-the-board cut in benefits such that total projected benefits equal projected revenues once the Social Security trust funds have been exhausted. Similar cuts are applied under each provision in any years after the Social Security trust funds are projected to be depleted.

Table 1. Summary Measures of Social Security Financial Outcomes
Projections Under Scheduled Baseline

		Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year								
		2020	2040	2060	2080	2100	GDP	Taxable Payroll		
Baseline Projections	**Revenues**	**5.07**	**5.02**	**4.94**	**4.83**	**4.72**	**5.26**	**13.86**		
	Outlays	**5.08**	**6.40**	**6.51**	**6.67**	**6.82**	**5.66**	**14.90**	**2020**	**2052**
	Balance	**-0.01**	**-1.38**	**-1.57**	**-1.85**	**-2.10**	**-0.40**	**-1.05**		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year								
		2020	2040	2060	2080	2100	GDP	Taxable Payroll		
1. Changes to Indexing of Benefits										
1.1 Grow initial benefits with prices rather than wages beginning in 2012	Revenues	-0.01	-0.05	-0.12	-0.17	-0.22	-0.05	-0.13		
	Outlays	-0.20	-1.09	-2.19	-3.15	-3.96	-0.93	-2.45	2022*	None
	Balance	0.19	1.03	2.08	2.97	3.74	0.88	2.33		
1.2 Grow initial benefits slower than wages for top 70% beginning in 2012 ("progressive price indexing")	Revenues	-0.01	-0.04	-0.08	-0.12	-0.14	-0.03	-0.09		
	Outlays	-0.12	-0.70	-1.47	-2.10	-2.48	-0.61	-1.61	2022*	None
	Balance	0.11	0.66	1.38	1.98	2.34	0.58	1.53		
1.3 Price index earnings in AIME formula and bend points in PIA formula beginning in 2012	Revenues	-0.01	-0.03	-0.08	-0.11	-0.14	-0.03	-0.08		
	Outlays	-0.09	-0.65	-1.45	-2.04	-2.51	-0.58	-1.53	2021*	None
	Balance	0.08	0.61	1.37	1.93	2.37	0.55	1.45		
1.4 Price index earnings in AIME formula beginning in 2012	Revenues	0.00	-0.01	-0.03	-0.03	-0.03	-0.01	-0.03		
	Outlays	-0.01	-0.17	-0.49	-0.58	-0.57	-0.17	-0.45	2020	2058
	Balance	0.01	0.16	0.45	0.55	0.54	0.16	0.43		
1.5 Price index bend points in PIA formula beginning in 2012	Revenues	0.00	-0.02	-0.06	-0.09	-0.12	-0.03	-0.06		
	Outlays	-0.08	-0.50	-1.08	-1.63	-2.11	-0.45	-1.17	2021	None
	Balance	0.08	0.47	1.02	1.54	2.00	0.42	1.11		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year						Taxable		
		2020	2040	2060	2080	2100	GDP	Payroll		
1.6 Longevity index initial benefits beginning in 2012	Revenues	0.00	-0.01	-0.02	-0.04	-0.05	-0.01	-0.03		
	Outlays	-0.03	-0.22	-0.43	-0.61	-0.77	-0.18	-0.47	2021	2059
	Balance	0.03	0.21	0.40	0.57	0.72	0.17	0.45		
2. Changes to Benefit Formula										
2.1 Reduce all PIA factors by 20% in 2012	Revenues	-0.03	-0.06	-0.07	-0.07	-0.07	-0.04	-0.11		
	Outlays	-0.57	-1.12	-1.24	-1.27	-1.30	-0.76	-2.00	2028	None
	Balance	0.54	1.06	1.17	1.21	1.23	0.72	1.90		
2.2 Reduce top two PIA factors from 32% to 20% and from 15% to 10% in 2012	Revenues	-0.03	-0.06	-0.07	-0.08	-0.08	-0.04	-0.11		
	Outlays	-0.57	-1.14	-1.27	-1.31	-1.35	-0.77	-2.02	2028	None
	Balance	0.54	1.08	1.20	1.24	1.27	0.73	1.92		
2.3 Reduce top PIA factor from 15% to 10% in 2012	Revenues	0.00	-0.01	-0.01	0.00	-0.01	0.00	-0.01		
	Outlays	-0.04	-0.09	-0.10	-0.12	-0.13	-0.07	-0.17	2021	2055
	Balance	0.04	0.08	0.09	0.12	0.13	0.06	0.17		
2.4 Reduce all PIA factors by 0.005 annually beginning in 2011	Revenues	-0.01	-0.03	-0.05	-0.08	-0.11	-0.02	-0.06		
	Outlays	-0.09	-0.51	-1.04	-1.56	-2.04	-0.44	-1.16	2021	None
	Balance	0.08	0.48	0.99	1.48	1.93	0.42	1.11		
2.5 Increase AIME calculation years from 35 to 40 phased in 2007-2011	Revenues	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02		
	Outlays	-0.13	-0.20	-0.19	-0.21	-0.22	-0.14	-0.37	2022	2060
	Balance	0.12	0.19	0.18	0.21	0.20	0.13	0.36		
3. Changes to Retirement Age or Actuarial Adjustments										
3.1 Eliminate NRA hiatus to 67 phased in 2006-2011	Revenues	-0.02	0.00	0.00	0.00	0.00	0.00	-0.01		
	Outlays	-0.17	-0.04	0.00	0.00	0.00	-0.05	-0.13	2022	2056
	Balance	0.15	0.04	0.00	0.00	0.00	0.05	0.13		
3.2 Eliminate NRA hiatus to 67 and continue rise to 68 phased in 2006-2017	Revenues	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.04		
	Outlays	-0.27	-0.29	-0.28	-0.29	-0.29	-0.22	-0.58	2023	2065
	Balance	0.25	0.27	0.26	0.27	0.27	0.21	0.55		
3.3 Eliminate NRA hiatus to 67 and continue rise to 70 phased in 2006-2029	Revenues	-0.02	-0.04	-0.06	-0.05	-0.06	-0.03	-0.08		
	Outlays	-0.28	-0.66	-0.78	-0.81	-0.81	-0.45	-1.17	2023	2087
	Balance	0.26	0.62	0.72	0.75	0.75	0.41	1.09		
3.4 Raise EEA to 65 phased in 2023-2040	Revenues	0.00	0.00	0.02	0.02	0.02	0.00	0.00		
	Outlays	0.00	-0.08	0.22	0.29	0.30	0.02	0.06	2020	2054
	Balance	0.00	0.08	-0.20	-0.27	-0.28	-0.02	-0.06		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year						Taxable		
		2020	2040	2060	2080	2100	GDP	Payroll		
3.5 Raise actuarial reduction factor to maximum 37% phased in 2008-2012	Revenues	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02		
	Outlays	-0.11	-0.18	-0.20	-0.20	-0.20	-0.13	-0.34	2021	2059
	Balance	0.09	0.17	0.19	0.19	0.18	0.12	0.33		
3.6 Raise delayed retirement credit to 10% per year phased in 2009-2015	Revenues	0.00	0.00	0.00	0.01	0.00	0.00	0.00		
	Outlays	0.00	0.02	0.02	0.01	0.01	0.01	0.02	2020	2052
	Balance	0.00	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01		
4. Changes to COLA										
4.1 Reduce benefit COLAs by 0.2 percentage points beginning in 2012	Revenues	0.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02		
	Outlays	-0.07	-0.16	-0.18	-0.20	-0.21	-0.11	-0.28	2021	2057
	Balance	0.06	0.15	0.17	0.19	0.19	0.10	0.27		
4.2 Reduce benefit COLAs by 0.4 percentage points beginning in 2012	Revenues	-0.01	-0.02	-0.02	-0.02	-0.02	-0.01	-0.03		
	Outlays	-0.13	-0.32	-0.35	-0.37	-0.41	-0.21	-0.54	2022	2063
	Balance	0.12	0.30	0.33	0.35	0.38	0.20	0.52		
4.3 Introduce super-COLA for DI workers of 1.3 percentage points beginning in 2012	Revenues	0.00	0.01	0.01	0.01	0.01	0.01	0.01		
	Outlays	0.08	0.19	0.24	0.24	0.26	0.13	0.35	2020	2048
	Balance	-0.08	-0.18	-0.23	-0.23	-0.25	-0.13	-0.33		
5. Changes to Payroll Tax Rates or Taxable Maximum										
5.1 Increase payroll tax rate by 1% 0.5% individuals, 0.5% employers beginning in 2007	Revenues	0.37	0.36	0.35	0.35	0.33	0.34	0.94		
	Outlays	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2024	2078
	Balance	0.37	0.38	0.37	0.36	0.35	0.35	0.93		
5.2 Raise taxable maximum to cover 87% of earnings phased in 2007-2050	Revenues	0.08	0.18	0.23	0.24	0.24	0.13	-0.04		
	Outlays	0.00	0.03	0.08	0.12	0.13	0.03	-0.33	2021	2058
	Balance	0.08	0.15	0.15	0.12	0.11	0.10	0.30		
5.3 Raise taxable maximum cover 90% of earnings phased in 2007-2100	Revenues	0.08	0.18	0.26	0.32	0.36	0.14	-0.04		
	Outlays	0.00	0.03	0.08	0.14	0.17	0.03	-0.35	2021	2058
	Balance	0.08	0.15	0.18	0.18	0.19	0.11	0.32		
5.4 Raise taxable maximum to $250,000 with no additional benefits beginning in 2007	Revenues	0.64	0.67	0.67	0.65	0.64	0.61	-0.17		
	Outlays	N/A	N/A	N/A	N/A	N/A	N/A	-1.77	2027	None
	Balance	0.65	0.70	0.69	0.70	0.70	0.64	1.61		
5.5 Apply 3% tax to all earnings above the taxable maximum beginning in 2007	Revenues	0.21	0.21	0.21	0.21	0.20	0.20	-1.67		
	Outlays	N/A	N/A	N/A	N/A	N/A	N/A	-2.29	2022	2066
	Balance	0.22	0.22	0.22	0.24	0.22	0.21	0.63		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year						Taxable		
		2020	2040	2060	2080	2100	GDP	Payroll		
6. Changes to Benefits for Low Earners										
6.1 Introduce poverty-related minimum benefit beginning in 2007	Revenues	0.00	0.00	0.01	0.01	0.01	0.00	0.01		
	Outlays	0.04	0.10	0.13	0.12	0.15	0.07	0.18	2020	2050
	Balance	-0.04	-0.10	-0.12	-0.11	-0.14	-0.06	-0.16		
6.2 Enhance low-earner benefits based on years worked beginning in 2007	Revenues	0.00	0.02	0.02	0.02	0.02	0.01	0.03		
	Outlays	0.12	0.36	0.39	0.41	0.41	0.23	0.60	2020	2045
	Balance	-0.12	-0.34	-0.37	-0.39	-0.39	-0.21	-0.56		
7. Changes to Auxiliary Benefits										
7.1 Limit spouse's benefit for high-earner couples beginning in 2007	Revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
	Outlays	-0.01	-0.02	-0.02	-0.02	-0.02	-0.01	-0.03	2020	2053
	Balance	0.01	0.01	0.02	0.02	0.02	0.01	0.03		
7.2 Reduce spouse's benefit to 33% of workers benefit beginning in 2007	Revenues	0.00	-0.01	-0.01	0.00	-0.01	0.00	-0.01		
	Outlays	-0.04	-0.05	-0.07	-0.09	-0.09	-0.05	-0.12	2021	2054
	Balance	0.04	0.04	0.06	0.08	0.08	0.05	0.12		
7.3 Raise low-earner widow(er) benefits to 75% of couple's benefit beginning in 2007	Revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
	Outlays	0.01	0.03	0.03	0.02	0.01	0.02	0.05	2020	2052
	Balance	-0.01	-0.03	-0.03	-0.02	-0.01	-0.02	-0.04		

Source: Congressional Budget Office

Notes: Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

Revenues equal payroll taxes and income taxes on benefits as a share of gross domestic product (GDP) in the specified year.

Outlays equal scheduled Social Security benefits and administrative costs as a share of GDP in the specified year.

The balance is the difference between revenues and outlays as a share of GDP in the specified year and may not equal the difference of the previous two rows because of rounding.

N/A reflects results under provisions that would have no direct effects on revenues or outlays.

A trust fund exhaustion year value of "None" reflects a provision that makes the trust fund solvent throughout the 100-year projection period.

* Revenues exceed outlays in some later year.

Table 2. Summary Measures of Social Security Distributional Outcomes by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	First-Year Benefits Retired Workers at Age 65 (2005 Dollars) Birth Cohort			Present Value at Age 60 Lifetime Benefits (2005 Dollars) Birth Cohort			Present Value at Age 60 Lifetime Payroll Taxes (2005 Dollars) Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
Baseline Projections	**Lowest**	**$9,000**	**$10,600**	**$13,500**	**$106,000**	**$132,000**	**$170,000**	**$72,000**	**$75,000**	**$91,000**
	Middle	**16,200**	**21,300**	**27,000**	**186,000**	**254,000**	**337,000**	**244,000**	**309,000**	**386,000**
	Highest	**23,300**	**30,300**	**38,900**	**269,000**	**361,000**	**477,000**	**486,000**	**636,000**	**818,000**

Changes to Social Security Distributional Outcomes Under Various Provisions by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65 Birth Cohort			Percentage Change in Lifetime Benefits Birth Cohort			Percentage Change in Lifetime Payroll Taxes Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
1. Changes to Indexing of Benefits										
1.1 Grow initial benefits with prices rather than wages beginning in 2012	Lowest	-16.7	-35.1	-50.0	-9.0	-23.6	-41.3	N/A	N/A	N/A
	Middle	-16.9	-35.1	-49.7	-14.6	-31.6	-46.5	N/A	N/A	N/A
	Highest	-16.5	-34.6	-49.1	-15.1	-33.1	-47.5	N/A	N/A	N/A
1.2 Grow initial benefits slower than wages for top 70% beginning in 2012 ("progressive price indexing")	Lowest	0.0	0.0	0.6	-2.0	-4.6	-8.0	N/A	N/A	N/A
	Middle	-9.5	-21.6	-30.0	-8.9	-19.4	-26.9	N/A	N/A	N/A
	Highest	-15.9	-34.3	-47.7	-14.7	-31.6	-45.4	N/A	N/A	N/A
1.3 Price index earnings in AIME formula and bend points in PIA formula beginning in 2012	Lowest	-10.2	-26.5	-37.4	-4.8	-14.6	-25.2	N/A	N/A	N/A
	Middle	-7.4	-21.7	-30.7	-6.8	-19.4	-29.9	N/A	N/A	N/A
	Highest	-10.4	-25.4	-34.1	-8.6	-22.2	-30.8	N/A	N/A	N/A
1.4 Price index earnings in AIME formula beginning in 2012	Lowest	-1.3	-7.4	-11.8	0.0	-4.9	-8.7	N/A	N/A	N/A
	Middle	-2.4	-11.0	-12.9	-1.7	-8.2	-10.5	N/A	N/A	N/A
	Highest	-1.4	-6.9	-8.0	-1.5	-6.2	-6.8	N/A	N/A	N/A
1.5 Price index bend points in PIA formula beginning in 2012	Lowest	-8.7	-20.0	-29.5	-3.9	-9.5	-19.0	N/A	N/A	N/A
	Middle	-5.0	-14.0	-24.7	-5.5	-13.7	-23.6	N/A	N/A	N/A
	Highest	-8.9	-18.4	-26.3	-7.5	-16.6	-23.8	N/A	N/A	N/A

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
1.6 Longevity index initial benefits beginning in 2012	Lowest	-4.4	-9.5	-14.0	-1.9	-3.7	-4.8	N/A	N/A	N/A
	Middle	-4.5	-9.7	-13.5	-3.1	-6.3	-8.8	N/A	N/A	N/A
	Highest	-4.1	-9.5	-13.5	-4.1	-7.1	-9.9	N/A	N/A	N/A
2. Changes to Benefit Formula										
2.1 Reduce all PIA factors by 20% in 2012	Lowest	-19.6	-20.0	-19.5	-12.4	-18.4	-20.6	N/A	N/A	N/A
	Middle	-19.7	-19.6	-19.9	-18.0	-19.6	-19.8	N/A	N/A	N/A
	Highest	-19.4	-19.3	-19.2	-18.1	-18.6	-18.5	N/A	N/A	N/A
2.2 Reduce top two PIA factors from 32% to 20% and from 15% to 10% in 2012	Lowest	-5.2	-3.2	-3.1	-6.5	-9.2	-10.7	N/A	N/A	N/A
	Middle	-19.6	-20.3	-19.7	-17.6	-19.2	-19.0	N/A	N/A	N/A
	Highest	-24.6	-24.8	-24.7	-22.9	-23.3	-23.8	N/A	N/A	N/A
2.3 Reduce top PIA factor from 15% to 10% in 2012	Lowest	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
	Middle	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
	Highest	-4.0	-4.7	-4.7	-4.6	-4.9	-4.4	N/A	N/A	N/A
2.4 Reduce all PIA factors by 0.005 annually beginning in 2011	Lowest	-7.5	-16.6	-24.5	-3.8	-10.0	-20.0	N/A	N/A	N/A
	Middle	-7.8	-16.6	-24.3	-6.4	-14.1	-22.7	N/A	N/A	N/A
	Highest	-7.4	-16.3	-23.9	-7.1	-15.4	-22.6	N/A	N/A	N/A
2.5 Increase AIME calculation years from 35 to 40 phased in 2007-2011	Lowest	-5.2	-4.6	-4.9	-2.2	-1.7	-2.7	N/A	N/A	N/A
	Middle	-6.7	-7.3	-7.1	-4.3	-4.1	-3.9	N/A	N/A	N/A
	Highest	-4.1	-4.3	-4.3	-2.6	-3.0	-1.8	N/A	N/A	N/A
3. Changes to Retirement Age or Actuarial Adjustments										
3.1 Eliminate NRA hiatus to 67 phased in 2006-2010	Lowest	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
	Middle	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
	Highest	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
3.2 Eliminate NRA hiatus to 67 and continue rise to 68 phased in 2006-2017	Lowest	-7.6	-7.5	-7.0	-2.6	-1.7	-2.9	N/A	N/A	N/A
	Middle	-7.6	-8.0	-7.8	-4.2	-4.5	-5.0	N/A	N/A	N/A
	Highest	-7.3	-7.5	-7.2	-5.2	-5.1	-4.1	N/A	N/A	N/A
3.3 Eliminate NRA hiatus to 67 and continue rise to 70 phased in 2006-2029	Lowest	-16.1	-19.0	-18.6	-5.0	-6.2	-6.5	N/A	N/A	N/A
	Middle	-15.9	-19.2	-19.3	-10.5	-11.7	-11.5	N/A	N/A	N/A
	Highest	-15.9	-18.6	-18.2	-12.0	-14.2	-13.7	N/A	N/A	N/A
3.4 Raise EEA to 65 phased in 2023-2040	Lowest	0.0	3.6	4.1	0.0	3.1	4.2	N/A	N/A	N/A
	Middle	0.0	4.5	4.4	0.7	4.2	3.7	N/A	N/A	N/A
	Highest	0.0	4.7	4.8	1.0	5.5	6.1	N/A	N/A	N/A

Changes to Social Security Distributional Outcomes Under Various Provisions
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	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
3.5 Raise actuarial reduction factor	Lowest	-3.6	-3.8	-3.5	-1.9	-1.8	-2.1	N/A	N/A	N/A
to maximum 37%	Middle	-4.0	-3.9	-3.5	-3.8	-3.5	-3.6	N/A	N/A	N/A
phased in 2008-2012	Highest	-3.7	-3.7	-3.7	-2.6	-3.1	-2.8	N/A	N/A	N/A
3.6 Raise delayed retirement credit	Lowest	N/A	N/A	N/A	0.1	0.5	1.5	N/A	N/A	N/A
to 10% per year	Middle	N/A	N/A	N/A	0.0	0.2	0.2	N/A	N/A	N/A
phased in 2009-2015	Highest	N/A	N/A	N/A	0.4	0.2	0.0	N/A	N/A	N/A
4. Changes to COLA										
4.1 Reduce benefit COLAs by	Lowest	-0.5	-0.9	0.1	-1.8	-2.2	-2.2	N/A	N/A	N/A
0.2 percentage points	Middle	-0.8	-0.8	-0.7	-2.4	-3.1	-2.7	N/A	N/A	N/A
beginning in 2012	Highest	-0.6	-0.5	-0.6	-2.4	-2.7	-3.1	N/A	N/A	N/A
4.2 Reduce benefit COLAs by	Lowest	-1.1	-1.6	-1.2	-4.0	-4.2	-5.3	N/A	N/A	N/A
0.4 percentage points	Middle	-1.3	-1.1	-1.2	-4.3	-5.5	-4.9	N/A	N/A	N/A
beginning in 2012	Highest	-1.2	-1.1	-1.0	-4.7	-5.0	-4.7	N/A	N/A	N/A
4.3 Introduce super-COLA for DI	Lowest	N/A	N/A	N/A	6.7	11.1	9.2	N/A	N/A	N/A
workers of 1.3 percentage points	Middle	N/A	N/A	N/A	1.8	3.7	3.9	N/A	N/A	N/A
beginning in 2012	Highest	N/A	N/A	N/A	1.3	0.9	1.6	N/A	N/A	N/A
5. Changes to Payroll Tax Rates or Taxable Maximum										
5.1 Increase payroll tax rates by 1%	Lowest	N/A	N/A	N/A	N/A	N/A	N/A	2.7	6.8	7.6
0.5% individuals, 0.5% employers	Middle	N/A	N/A	N/A	N/A	N/A	N/A	3.9	7.4	8.7
beginning in 2007	Highest	N/A	N/A	N/A	N/A	N/A	N/A	3.9	7.2	7.1
5.2 Raise taxable maximum to cover	Lowest	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.5	0.0
87% of earnings	Middle	0.1	0.6	0.7	0.0	0.0	0.4	0.0	1.0	1.1
phased in 2007-2050	Highest	0.8	2.9	4.2	1.1	2.4	4.9	1.6	5.4	8.5
5.3 Raise taxable maximum to cover	Lowest	0.0	0.0	0.7	0.0	0.0	0.8	0.4	0.5	1.3
90% of earnings	Middle	0.1	0.6	0.7	0.0	0.0	0.8	0.4	1.0	0.0
phased in 2007-2100	Highest	0.8	2.9	4.5	1.1	2.5	5.3	1.6	5.5	9.0
5.4 Raise taxable maximum to 250,000	Lowest	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.0	0.0
with no additional benefits	Middle	N/A	N/A	N/A	N/A	N/A	N/A	1.2	1.4	0.0
beginning in 2007	Highest	N/A	N/A	N/A	N/A	N/A	N/A	27.5	43.6	44.0
5.5 Apply 3% tax to all earnings	Lowest	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.0	0.0
above the taxable maximum	Middle	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.7	0.6
beginning in 2007	Highest	N/A	N/A	N/A	N/A	N/A	N/A	6.7	10.3	10.7

Changes to Social Security Distributional Outcomes Under Various Provisions
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	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
6. Changes to Benefits for Low Earners										
6.1 Introduce poverty-related minimum benefit beginning in 2007	Lowest	5.2	14.6	13.9	5.5	16.8	15.4	N/A	N/A	N/A
	Middle	0.0	0.0	0.0	0.0	0.0	1.0	N/A	N/A	N/A
	Highest	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
6.2 Enhance low-earner benefits based on years worked beginning in 2007	Lowest	25.4	26.4	24.4	12.0	22.7	22.2	N/A	N/A	N/A
	Middle	2.3	1.4	1.8	3.9	3.7	4.8	N/A	N/A	N/A
	Highest	0.0	0.0	0.0	0.0	0.0	0.8	N/A	N/A	N/A
7. Changes to Auxiliary Benefits										
7.1 Limit spouse's benefit for high-earner couples beginning in 2007	Lowest	N/A	N/A	N/A	-0.6	-0.9	-1.8	N/A	N/A	N/A
	Middle	N/A	N/A	N/A	-0.1	-0.1	0.0	N/A	N/A	N/A
	Highest	N/A	N/A	N/A	-0.3	-0.4	-0.6	N/A	N/A	N/A
7.2 Reduce spouse's benefit to 33% of workers benefit beginning in 2007	Lowest	N/A	N/A	N/A	-3.0	-4.3	-6.1	N/A	N/A	N/A
	Middle	N/A	N/A	N/A	-0.7	-1.0	-1.9	N/A	N/A	N/A
	Highest	N/A	N/A	N/A	-1.0	-0.9	0.0	N/A	N/A	N/A
7.3 Raise low-earner widow(er) benefits to 75% of couple's benefit beginning in 2007	Lowest	N/A	N/A	N/A	1.5	1.6	1.1	N/A	N/A	N/A
	Middle	N/A	N/A	N/A	0.3	0.0	0.8	N/A	N/A	N/A
	Highest	N/A	N/A	N/A	0.0	0.0	0.7	N/A	N/A	N/A

Source: Congressional Budget Office

Notes: Based on a simulation using the Social Security trustees' 2005 intermediate demographic and long-run economic assumptions and CBO's January 2005 short-run economic assumptions.

First-year annual benefits are computed for all workers eligible to claim Old-Age Insurance benefits at age 62 who have not yet claimed any other benefit. Benefits are computed assuming claim at age 65, based only on earnings through age 61. All values are net of income taxes paid on benefits and credited to the Social Security trust funds. Lifetime benefits include Old-Age and Disability worker benefits and Old-Age Spouse and Survivor benefits received by each individual during his or her lifetime net of income taxes credited to the Social Security trust funds. Lifetime taxes include OASDI employer and employee taxes.

N/A reflects results under provisions that would have no direct effects on benefits or taxes.

Table 3. Summary Measures of Social Security Distributional Outcomes by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Current Law Baseline

	Lifetime Earnings Quintile	First-Year Benefits for Retired Workers at Age 65 (2005 Dollars) Birth Cohort			Present Value at Age 60 Lifetime Benefits (2005 Dollars) Birth Cohort			Present Value at Age 60 Lifetime Payroll Taxes (2005 Dollars) Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
Baseline Projections	**Lowest**	**$9,000**	**$10,200**	**$10,000**	**$106,000**	**$119,000**	**$132,000**	**$72,000**	**$75,000**	**$92,000**
	Middle	**16,100**	**20,500**	**20,000**	**183,000**	**215,000**	**247,000**	**244,000**	**309,000**	**386,000**
	Highest	**23,300**	**29,200**	**28,800**	**264,000**	**294,000**	**344,000**	**486,000**	**632,000**	**817,000**

Changes to Social Security Distributional Outcomes Under Various Provisions by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Current Law Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65 Birth Cohort			Percentage Change in Lifetime Benefits Birth Cohort			Percentage Change in Lifetime Payroll Taxes Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
1. Changes to Benefit Growth Rates										
1.1 Grow initial benefits with prices rather than wages beginning in 2012	Lowest	-16.7	-32.9	-32.6	-8.5	-15.3	-24.4	N/A	N/A	N/A
	Middle	-16.9	-32.4	-32.1	-13.5	-19.3	-27.0	N/A	N/A	N/A
	Highest	-16.5	-32.2	-31.5	-13.4	-17.7	-27.2	N/A	N/A	N/A
1.2 Grow initial benefits slower than wages for top 70% beginning in 2012 ("progressive price indexing")	Lowest	0.0	3.5	35.7	-1.4	5.7	18.5	N/A	N/A	N/A
	Middle	-9.5	-18.4	-5.5	-7.8	-5.0	0.0	N/A	N/A	N/A
	Highest	-15.9	-31.9	-29.5	-13.0	-15.8	-24.3	N/A	N/A	N/A
1.3 Price index earnings in AIME formula and bend points in PIA formula beginning in 2012	Lowest	-10.2	-23.9	-15.5	-4.3	-5.4	-3.6	N/A	N/A	N/A
	Middle	-7.3	-18.5	-6.5	-5.6	-5.0	-4.3	N/A	N/A	N/A
	Highest	-10.4	-22.6	-11.2	-6.8	-4.2	-4.0	N/A	N/A	N/A
1.4 Price index earnings in AIME formula beginning in 2012	Lowest	-1.3	-4.1	-4.4	0.2	0.0	0.0	N/A	N/A	N/A
	Middle	-2.4	-7.5	-5.4	-0.7	-0.7	-2.3	N/A	N/A	N/A
	Highest	-1.4	-3.5	0.0	0.0	3.3	1.5	N/A	N/A	N/A
1.5 Price index bend points in PIA formula beginning in 2012	Lowest	-8.8	-17.1	-4.9	-3.4	0.0	4.4	N/A	N/A	N/A
	Middle	-5.0	-10.5	1.6	-4.3	1.7	4.3	N/A	N/A	N/A
	Highest	-8.9	-15.4	-0.7	-5.6	2.7	5.7	N/A	N/A	N/A

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Current Law Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
1.6 Longevity index initial benefits beginning in 2012	Lowest	-4.4	-6.1	-7.4	-1.5	1.9	4.8	N/A	N/A	N/A
	Middle	-4.5	-6.1	-7.0	-2.0	2.0	-0.1	N/A	N/A	N/A
	Highest	-4.1	-6.1	-6.6	-2.5	3.1	-1.2	N/A	N/A	N/A
2. Changes to Benefit Formula										
2.1 Reduce all PIA factors by 20% in 2012	Lowest	-19.7	-17.2	8.6	-12.0	-9.7	2.2	N/A	N/A	N/A
	Middle	-19.7	-16.4	8.3	-17.0	-5.2	9.3	N/A	N/A	N/A
	Highest	-19.4	-16.3	8.8	-16.5	0.0	13.2	N/A	N/A	N/A
2.2 Reduce top two PIA factors from 32% to 20% and from 15% to 10% in 2012	Lowest	-5.2	0.0	30.7	-6.0	0.6	15.0	N/A	N/A	N/A
	Middle	-19.6	-17.0	8.3	-16.5	-4.8	10.5	N/A	N/A	N/A
	Highest	-24.6	-22.0	1.4	-21.4	-5.6	5.7	N/A	N/A	N/A
2.3 Reduce top PIA factor from 15% to 10% in 2012	Lowest	0.0	3.3	2.2	0.8	2.8	2.2	N/A	N/A	N/A
	Middle	0.0	4.0	2.0	0.0	3.9	1.8	N/A	N/A	N/A
	Highest	-4.0	-1.1	-2.5	-3.8	-0.6	-2.6	N/A	N/A	N/A
2.4 Reduce all PIA factor by 0.005 annually beginning in 2011	Lowest	-7.5	-13.7	1.8	-3.2	0.0	3.1	N/A	N/A	N/A
	Middle	-7.7	-13.2	2.1	-5.1	1.2	5.5	N/A	N/A	N/A
	Highest	-7.4	-13.2	2.5	-5.2	4.1	7.3	N/A	N/A	N/A
2.5 Increase AIME calculation years from 35 to 40 phased in 2007-2011	Lowest	-5.2	-1.1	-2.0	-1.7	3.7	3.4	N/A	N/A	N/A
	Middle	-6.7	-3.6	-4.2	-3.3	4.0	0.6	N/A	N/A	N/A
	Highest	-4.1	-0.7	-1.1	-1.0	6.8	1.9	N/A	N/A	N/A
3. Changes to Retirement Age or Actuarial Adjustments										
3.1 Eliminate NRA hiatus to 67 phased in 2006-2011	Lowest	0.0	3.9	0.8	0.9	3.2	2.2	N/A	N/A	N/A
	Middle	0.0	3.9	0.7	0.0	3.3	1.0	N/A	N/A	N/A
	Highest	0.0	3.6	0.8	0.8	3.2	0.9	N/A	N/A	N/A
3.2 Eliminate NRA hiatus to 67 and continue rise to 68 phased in 2006-2017	Lowest	-7.7	-4.3	-1.3	-2.1	6.1	6.0	N/A	N/A	N/A
	Middle	-7.6	-4.2	-2.1	-3.0	7.5	2.2	N/A	N/A	N/A
	Highest	-7.3	-4.0	-2.2	-3.4	9.4	1.6	N/A	N/A	N/A
3.3 Eliminate NRA hiatus to 67 and continue rise to 70 phased in 2006-2029	Lowest	-16.0	-16.1	9.6	-4.5	3.9	17.8	N/A	N/A	N/A
	Middle	-15.8	-15.9	8.6	-9.3	4.1	16.5	N/A	N/A	N/A
	Highest	-15.9	-15.6	10.1	-10.3	5.6	13.6	N/A	N/A	N/A
3.4 Raise EEA to 65 phased in 2023-2040	Lowest	0.5	7.3	0.6	0.5	2.3	0.8	N/A	N/A	N/A
	Middle	0.0	8.7	0.7	0.9	3.1	-1.0	N/A	N/A	N/A
	Highest	0.0	8.6	1.1	1.4	4.4	1.4	N/A	N/A	N/A

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	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
3.5 Raise actuarial reduction factor	Lowest	-3.6	-0.4	-0.6	-1.5	3.2	3.5	N/A	N/A	N/A
to maximum 37%	Middle	-3.9	0.0	-0.4	-2.8	4.1	0.8	N/A	N/A	N/A
phased in 2008-2012	Highest	-3.7	-0.2	-0.5	-1.1	5.9	1.4	N/A	N/A	N/A
3.6 Raise delayed retirement credit	Lowest	N/A	-1.1	-0.5	0.0	0.0	0.3	N/A	N/A	N/A
to 10% per year	Middle	N/A	-0.7	-0.6	-0.3	0.0	0.0	N/A	N/A	N/A
phased in 2009-2015	Highest	N/A	-0.8	-0.2	0.3	0.2	0.6	N/A	N/A	N/A
4. Changes to COLA										
4.1 Reduce benefit COLAs by	Lowest	-0.5	2.5	3.6	-1.5	2.0	2.1	N/A	N/A	N/A
0.2 percentage points	Middle	-0.8	3.2	2.6	-1.5	3.2	0.7	N/A	N/A	N/A
beginning in 2012	Highest	-0.6	3.2	3.1	-1.1	4.8	0.0	N/A	N/A	N/A
4.2 Reduce benefit COLAs by	Lowest	-1.1	1.9	4.6	-3.5	3.3	3.7	N/A	N/A	N/A
0.4 percentage points	Middle	-1.3	2.9	4.6	-3.1	5.9	3.0	N/A	N/A	N/A
beginning in 2012	Highest	-1.2	2.6	4.6	-2.9	9.1	1.9	N/A	N/A	N/A
4.3 Introduce super-COLA for DI	Lowest	N/A	-14.8	-4.1	5.7	5.5	4.4	N/A	N/A	N/A
workers of 1.3 percentage points	Middle	N/A	-13.9	-4.2	0.0	-3.7	0.0	N/A	N/A	N/A
beginning in 2012	Highest	N/A	-15.5	-4.1	-1.1	-5.8	-2.6	N/A	N/A	N/A
5. Changes to Payroll Tax Rates or Taxable Maximum										
5.1 Increase payroll tax rate by 1%	Lowest	N/A	2.8	34.1	0.0	10.8	19.5	2.7	6.8	6.7
0.5% individuals, 0.5% employers	Middle	N/A	3.8	34.4	0.7	16.5	23.0	3.9	7.1	8.2
beginning in 2007	Highest	N/A	3.3	34.2	1.6	21.6	22.1	3.9	7.2	6.5
5.2 Raise taxable maximum to cover	Lowest	0.0	3.0	4.2	0.0	4.8	4.7	0.0	0.0	0.1
87% of earnings	Middle	0.2	4.7	4.8	0.7	7.2	5.7	0.4	0.7	1.6
phased in 2007-2050	Highest	0.8	6.7	8.9	2.6	11.4	9.4	1.6	5.3	8.7
5.3 Raise taxable maximum to cover	Lowest	0.0	3.0	4.9	0.0	4.9	5.5	0.0	0.0	0.3
90% of earnings	Middle	0.2	4.6	5.7	0.8	7.6	7.0	0.4	0.7	-9.2
phased in 2007-2100	Highest	0.8	6.7	10.2	2.6	12.1	11.4	1.6	5.4	9.2
5.4 Raise taxable maximum to $250,000	Lowest	N/A	2.6	33.9	0.6	10.4	28.8	0.0	0.0	0.0
with no additional benefits	Middle	N/A	3.5	34.1	0.4	16.4	34.9	1.2	1.1	-9.2
beginning in 2007	Highest	N/A	2.9	33.8	1.5	22.5	37.2	27.6	43.5	43.1
5.5 Apply 3% tax to all earnings	Lowest	N/A	3.4	6.9	0.6	8.7	9.7	0.0	0.0	-0.5
above the taxable maximum	Middle	N/A	4.2	7.8	0.5	11.6	7.8	0.0	0.0	0.0
beginning in 2007	Highest	N/A	3.5	6.4	1.7	15.9	6.4	6.7	10.2	10.4

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Current Law Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
6. Changes to Benefits for Low Earners										
6.1 Introduce poverty-related minimum benefit beginning in 2007	Lowest	5.2	6.4	11.2	5.1	14.0	12.4	N/A	N/A	N/A
	Middle	0.0	-6.0	-2.6	-0.8	-3.8	-1.2	N/A	N/A	N/A
	Highest	0.0	-7.9	-2.3	-1.2	-3.9	-2.2	N/A	N/A	N/A
6.2 Enhance low-earner benefits based on years worked beginning in 2007	Lowest	25.4	1.7	17.1	10.0	13.7	14.9	N/A	N/A	N/A
	Middle	2.3	-18.6	-5.5	0.7	-6.3	-2.2	N/A	N/A	N/A
	Highest	0.0	-20.4	-6.8	-3.8	-10.0	-5.6	N/A	N/A	N/A
7. Changes to Auxiliary Benefits										
7.1 Limit spouse's benefit for high-earner couples beginning in 2007	Lowest	N/A	1.3	0.6	0.0	0.0	-1.7	N/A	N/A	N/A
	Middle	N/A	1.5	0.0	0.0	0.6	0.5	N/A	N/A	N/A
	Highest	N/A	1.5	0.7	0.0	0.0	0.0	N/A	N/A	N/A
7.2 Reduce spouse benefit to 33% of worker PIA beginning in 2007	Lowest	N/A	3.1	1.3	-2.8	-2.4	-3.2	N/A	N/A	N/A
	Middle	N/A	3.8	1.5	0.0	1.8	-0.7	N/A	N/A	N/A
	Highest	N/A	3.8	1.7	0.0	2.6	1.3	N/A	N/A	N/A
7.3 Raise low-earner widow(er) benefits to 75% of couple's benefit beginning in 2007	Lowest	N/A	-2.0	0.0	1.4	0.6	0.6	N/A	N/A	N/A
	Middle	N/A	-1.9	-0.5	0.0	-0.9	0.0	N/A	N/A	N/A
	Highest	N/A	-1.5	0.0	0.0	-1.2	0.0	N/A	N/A	N/A

Source: Congressional Budget Office

Notes: Based on a simulation using the Social Security trustees' 2005 intermediate demographic and long-run economics assumptions and CBO's January 2005 short-run economic assumptions.

First-year annual benefits are computed for all workers eligible to claim Old-Age Insurance benefits at age 62 who have not yet claimed any other benefit. Benefits are computed assuming claim at age 65, based only on earnings through age 61. All values are net of income taxes paid on benefits and credited to the Social Security trust funds. Lifetime benefits include Old-Age and Disability worker benefits and Old-Age Spouse and Survivor benefits received by each individual during his or her lifetime net of income taxes credited to the Social Security trust funds. Lifetime taxes include OASDI employer and employee payroll taxes.

Under current law, all beneficiaries are subject to an across-the-board cut in benefits such that total projected outlays equal projected revenues one the Social Security trust funds have been exhausted. Under each provision, similar cuts are applied at the relevant trust fund exhaustion date (see Table 1).

N/A reflects results under provisions that would have no direct effects on benefits or taxes.

Appendix: Description of Social Security Provisions

Under current law, initial Social Security benefits are wage indexed. All Social Security benefits are based on a worker's primary insurance amount (PIA). In turn, the PIA depends on a measure of the worker's career earnings in employment subject to the Social Security payroll tax, expressed as his or her average indexed monthly earnings (AIME).

AIME. For people who attain age 62 after 1990, the AIME is calculated based on the highest 35 years of earnings on which the individual paid Social Security taxes (up to the taxable maximum, which is $90,000 in 2005). Earnings before age 60 are indexed to compensate for past growth in average (nominal) wages, and earnings after age 59 enter the computation at their actual levels. Dividing the total earnings by 420 (35 years times 12 months) yields the AIME.

PIA. The PIA is the monthly amount payable to a worker who begins receiving Social Security retirement benefits at the age at which he or she is eligible for full benefits or payable to a disabled worker who has never received a retirement benefit. The PIA formula is designed to ensure that initial Social Security benefits replace a larger proportion of preretirement earnings for people with low average earnings that for those with higher earnings. For workers who turn 62, become disabled, or die in 2005, the formula is:

PIA = (90 percent of the first $627 of the AIME) +
(32 percent of the AIME between $627 and $3,779) +
(15 percent of the AIME over $3,779)

The percentages of the AIME are known as "PIA factors" or "replacement factors" and remain unchanged. The thresholds at which the percentage of the AIME changes are known as "bend points." They change each year along with changes in the average annual earnings for the labor force as a whole. Consequently, as wages rise over time, initial benefits increase at a similar pace or are said to be "wage-indexed."

In addition, at the end of each year after participants become eligible for benefits, the Social Security Administration (SSA) adjusts the PIA by the amount of any increase in the consumer price index (CPI). Those annual cost-of-living adjustments are designed to ensure that the purchasing power of benefits does not decline.

1. Changes to Benefit Growth Rates

1. Under this provision, initial benefits for retired and disabled workers grow with the CPI beginning in 2012. In practice, the policy would be implemented by reducing the PIA replacement factors successively by the measured real wage growth in the second prior year. The bend points would remain indexed to wages. (This is the provision proposed by the Commission to Strengthen Social Security.)

2. This provision, often described as "progressive indexing," does not change the benefits for those in the bottom 30 percent of career average earnings. Initial benefits for higher earners would grow slower than under current law. Initial benefits for someone who earned the taxable maximum throughout a career, "maximum earners," would grow with prices (as in 1.1). Initial benefits for participants with lifetime earnings between the 30th percentile and the maximum would grow faster than prices but slower than wages; the actual benefit change would be related to the worker's position in the income distribution.

   Specifically, this would be achieved by adding a third bend point to the PIA formula within what is now the 32 percent bracket. The PIA factor would remain 32 percent below this new bend point. The PIA factors in the next two brackets would initially be 32 percent and 15 percent, but they would be reduced annually—multiplied by a rate sufficient to keep benefits for a maximum earner growing with prices, as described.

   The adjustments apply to the computation of initial benefits for both retired and disabled workers, beginning in 2012. (This is the provision proposed by Robert C. Pozen.)

3. Under this provision, wages in the AIME formula as well as bend points in the PIA formula increase with prices rather than wages as under current law. This applies to both retired and disabled workers, beginning in 2012

4. This provision price indexes wages in the AIME formula for retired and disabled workers, beginning in 2012

5. This provision price indexes the bend points in the PIA formula for retired and disabled workers, beginning in 2012.

6. This provision reduces the PIA factors to reflect future changes in life expectancies at age 62. Beginning in 2012, the provision would multiply the factors by a ratio that captures the increase in life expectancy at age 62 for the each cohort as it reaches that age. For any given cohort, the ratio would equal life expectancy at age 62 for the cohort reaching age 62 in 2008 divided by the life expectancy at age 62 for the cohort reaching age 62 three years prior to the cohort in question. (For example, the ratio used for the cohort reaching age 62 in 2020 would reflect the difference between the life expectancy of the cohort reaching age 62 in 2017 and the one reaching age 62 in 2008.) The reductions apply fully to retired workers and partially to disabled workers, implemented upon conversion to Old-Age Insurance benefits at the normal retirement age and is weighted by the number of years worked prior to the onset of the disability.

2. Changes to Benefit Formula

1. This provision reduces the PIA factors for retired and disabled workers by 20 percent (to 72 percent, 26 percent, and 12 percent) in 2012. Under current law, the PIA factors are 90percent, 32 percent, and 15 percent.

2. This provision reduces the top two PIA factors for retired and disabled workers, from 32 percent to 20 percent and 15 percent to 10 percent, in 2012.

3. This provision reduces only the top PIA factor for retired and disabled workers, from 15 percent to 10 percent, in 2012.

4. This provision reduces the PIA factors for retired and disabled workers by 0.005 annually (all PIA replacement factors would be multiplied by 0.995 each year) beginning in 2011.

5. This provision increases the AIME calculation years for retired workers from 35 to 40, phased in over 2007 to 2011. This change applies to both the numerator and denominator of the AIME calculation; the AIME would then be the average of the 40 highest years of indexed monthly earnings. The AIME calculation change is applied only to the calculation of retired worker benefits.

3. Changes to Retirement Age or Actuarial Adjustments

Under the Social Security Amendments of 1983, the age at which individuals could receive unreduced Social Security retirement benefits was increased from 65 to 67 in two stages. The first stage raised the age by two months a year each year from 2000 to 2005, so that workers turning 62 in 2005 face a normal retirement age (NRA) of 66. The second stage is scheduled for 2017 to 2022, when the age will increase from 66 to 67. The period from 2006 to 2016 is the "NRA hiatus."

1. This provision eliminates the NRA hiatus to 67, so the NRA reaches 67 for beneficiaries who turn 62 in 2011.

2. This provision eliminates the NRA hiatus to 67 and continues to increase the NRA by two months per year to age 68, so the NRA reaches 68 for beneficiaries turning 62 in 2017.

3. This provision eliminates the NRA hiatus to 67 and continues to increase the NRA by two months per year to age 70, so the NRA reaches 70 for beneficiaries turning 62 in 2029.

4. This provision raises the early eligibility age (EEA), the age at which Social Security retirement benefits can first be claimed, from 62 to 65 by two months per year beginning in 2023, so the EEA reaches 65 for beneficiaries turning 65 in 2040.

5. This provision increases the reduction factors for retired workers who apply for benefits before the NRA. The reduction factor for spousal benefits would also be increased. When the NRA reaches 67, the proposed change would have the effect of reducing the PIA for benefits at age 62 by 37 percent for retired workers (compared with 30 percent under current law) and by 42 percent for spousal benefits (compared with 35 percent under current law). This is phased in from 2008 to 2012.

6. This provision increases the delayed retirement credit (DRC) to 10 percent per year (compared with 8 percent per year under current law) phased in 0.5 percent per year from 2009 to 2015.

4. Changes to COLA

Under current law, at the end of each year, SSA adjusts benefits by the amount of any increase in the CPI. This increase is known as a cost-of-living adjustment (COLA).

1. This provision reduces the COLA applied to all benefits by 0.2 percentage points beginning in 2012.

2. This provision reduce the COLA applied to all benefits by 0.4 percentage points beginning in 2012.

3. This provision introduces a super-COLA for DI workers and auxiliaries that increases the COLA by 1.3 percentage points beginning in 2007.

5. Changes to Payroll Tax Rates or Taxable Maximum

Under current law, the OASDI payroll tax rate for both employers and employees is 6.2 percent. Payroll taxes are imposed on income up to the taxable maximum ($90,000 in 2005).

1. This provision raises the payroll tax rate by 0.5 percentage points for both employers and employees, beginning in 2007. The increased rates total 13.4 percent: 6.7 percent for both employers and employees.

2. This provision raises the taxable maximum to cover 87 percent of earnings with additional amounts used in benefit calculations, phased in from 2007 to 2050. Currently, about 83 percent of covered earnings are taxable, and under current law the taxable maximum increases annually at the same rate as average wages in the economy. Under this provision, the taxable maximum would increase faster than average wages until 2050, when 87 percent of earnings would be taxable. Thereafter, it would increase as under current law. The additional taxable earnings would be included in benefit calculations, so workers who paid additional taxes would also be entitled to higher benefits.

3. This provision raises the taxable maximum to cover 90 percent of earnings with additional amounts used in benefit calculations, phased in from 2007 to 2100. Currently, about 83 percent of cov-

ered earnings are taxable, and under current law the taxable maximum increases annually at the same rate as average wages in the economy. Under this provision, the taxable maximum would increase faster than average wages until 2100, when 90 percent of earnings would be taxable. Thereafter, it would increase as under current law. The additional taxable earnings would be included in benefit calculations, so workers who paid additional taxes would also be entitled to higher benefits.

4. This provision raises the taxable maximum to $250,000 in 2007, then grows it with wages in all later years, as under current law. This provision would not affect benefit calculations.

5. This provision applies a 3 percent tax on all earnings above the taxable maximum, beginning in 2007. This provision would not affect benefit calculations.

6. Changes to Benefits for Low Earners

1. This provision introduces a poverty-related minimum benefit, phased in from 2009 to 2013. A new formula for raising benefits for long-term workers with relatively low earnings would be introduced for workers becoming eligible for benefits beginning in 2009. (Current law includes a special minimum benefit, but it affects relatively few workers and is gradually diminishing in importance because it is not adjusted for real wage growth.) A new minimum PIA would be calculated based on a worker's quarters of coverage (QCs). The minimum PIA would be 2 percent of the poverty level for each QC above 40 (10 years of earnings) and up to 80 QCs, and 0.5 percent of the poverty level for QCs above 80 but not more than 160. Thus, for someone with 20 years of earnings, the minimum PIA would typically be 80 percent of the poverty level; at 40 years, the amount would be 120 percent of the poverty level. (For disabled workers, fewer quarters would be required because of their shortened careers.) Beginning in 2014, the effective poverty levels would be increased with average wages.

2. This provision increases benefits for workers who have both low lifetime average earnings and at least 20 years of covered earnings, beginning in 2007. Qualifying workers would have their PIA multiplied by the following factor:

1 + (40.4 percent x AIME factor x coverage factor)

The two factors each range from 0 to 1, so this provision increases benefit levels by up to 40.4 percent.

The average indexed monthly earnings (AIME) factor would give a larger increase to workers with lower average wages. The AIME factor is set equal to 1 for workers with an AIME equal to or less than the AIME of a worker who earned the minimum wage for 30 years. It is set to zero for workers with an AIME greater than the AIME of a "scaled medium worker" (a worker who worked for 35 years, always earning an amount equal to the AWI).

For workers with earnings between these levels the factor is set proportionately, for example, 0.5 for those at the average of those two levels. The formula is:

AIME factor = (AIMEmedium worker - AIME)/(AIMEmedium worker - AIMEminimum wage worker)

The coverage factor would give a larger increase to workers with more years of covered earnings. (Years of covered earnings are defined through earned quarters of coverage.)

For most retired workers, it is set equal to 1 if the worker has at least 35 years in covered employment. It is set equal to 0 if the worker had 20 or fewer years in covered employment. For workers who worked between 20 and 35 years, the factor is set proportionately, for example, 0.6 for those with 29 years in covered employment. The formula is:

Coverage factor = 1 - {[(3.5 x elapsed years) - quarters of coverage]/(1.5 x elapsed years)}

7. Changes to Auxiliary Benefits

1. This provision limits benefits for couples in cases where the primary worker's earnings are above the national average. Beginning in 2007 the spousal benefit would be reduced in any situation where the couple's benefit (before any actuarial reductions) would exceed the PIA of a worker who always earned the taxable maximum and reached eligibility age in the same year as the primary

earner. The spouse's benefit for these high-earner couples is limited to the difference between the worker benefit and the PIA paid to the maximum earner in that year. In an extreme case, where the primary earner has earned the taxable maximum each year, no spousal benefit would be paid.

2. This provision would reduce spousal benefits to 33 percent of the worker's benefit from the current 50 percent. This applies to both spouses of both retired and disabled workers beginning in 2007.

3. This provision boosts benefits to some surviving spouses by ensuring that benefits equal 75 percent of the hypothetical benefit that the couple would receive if both were alive. The new minimum benefit for the surviving spouse could not exceed the average PIA for retired-worker benefits in the December before the month of entitlement to the widow(er)s benefit (or, if the month of entitlement is December, then that same month). The proposed change would be implemented for those who apply for a surviving spouse's benefit beginning in 2007.