Supplemental Security Income (SSI) program. Under the Budget Enforcement Act, a reduction in the SSI eligibility age would need to be accompanied by offsetting savings in areas other than Social Security.

SOCIAL SECURITY BENEFIT STRUCTURE

This proposal includes the following changes.

— Reduce benefits for aged spouses (this change would apply only to new recipients) and use the savings to raise benefits for aged widows and widowers.

— Cancel further increases in the delayed retirement credit.

— Include a modified version of the Rostenkowski proposal to add a third bend point. I am concerned, however, that this particular change, as contained in the Rostenkowski bill, could eventually lessen support for Social Security to too large an extent because it would make Social Security benefits an inadequate return for payroll taxes paid into the system by a substantial number of workers. Accordingly, I would alter the proposal so it achieves two-thirds of the savings of the Rostenkowski bend-point proposal.

— Include all new State and local workers in Social Security who begin work after January 1, 1996.

MEASURING INFLATION PROPERLY

The Consumer Price Index (CPI) is intended to measure changes over time in the cost of a fixed market basket of goods and services. It is not intended to be a cost-of-living index. Analysts generally believe that the CPI modestly overstates changes in the cost of living. A recent Congressional Budget Office report estimated that the CPI overstates inflation by between two-tenths and eight-tenths of a percentage point per year.

This proposal would direct the Bureau of Labor Statistics (BLS) to alter the CPI to make it more of a cost-of-living index by the year 2000. This could entail such changes as updating the market basket annually, using a geometric mean in the CPI calculations, and other modifications. Some of these changes are technical and require study and refinement before they can be implemented. The BLS is already at work on a number of these matters.

These changes ought to reduce the CPI by about five-tenths of a percentage point per year. The Entitlement Commission Staff estimates that changes in the CPI that reduce it half a percentage point a year will yield about one-third of the savings needed to restore long-term balance to the Social Security system. This proposal also envisions lowering the CPI measure that is used for benefit and tax indexing by 0.5 of a percentage point per year from 1996 to 2000, so that benefits and the tax code are not overindexed in the interim period until BLS institutes changes in the index.

REFORM PROPOSAL OF COMMISSIONER ROBERT GREENSTEIN

A PROPOSAL TO PLACE SOCIAL SECURITY IN ACTUARIAL BALANCE

A package of policy changes aimed at restraining the long-term deficit problem should: 1) make changes in Social Security to bring it into long-term actuarial balance; 2) reform the health care system so health care costs in both the public and private sectors rise less rapidly and also increase the amounts some Medicare beneficiaries pay for Medicare services; and 3) make changes in certain other entitlement and tax expenditures. The next task — health care reform and changes in Medicare — involves complicated interactions, while the third task involves detailed examination of civilian and military retirement programs, disability programs, veterans' programs, and farm price support programs, and various aspects of the tax code. Significant aspects of these two latter tasks exceed my knowledge and the time available to prepare this paper. Hence, this paper focuses on recommendations to bring Social Security into long-term actuarial balance.

That task can be accomplished without benefit reductions nearly as large as those included in the Chairmen's mark presented on December 9. Those recommendations would have reduced the payroll tax by 1.5 percentage points, thereby enlarging the long-term imbalance in the Social Security Trust Fund and making the benefit reductions needed to address the imbalance more severe. (The benefit reductions in the Chairmen's mark also were particularly large because they saved more than is needed to restore long-term balance to the Trust Fund.)

A very different approach to restoring Social Security to long-term balance is that taken by the bill introduced by former Rep. Dan Rostenkowski in 1993. While I do not subscribe to every particular in the bill, I believe the Rostenkowski proposal represents a reasonable way to restore balance to the Social Security system. Because about half of the savings the bill generates come from increasing the payroll tax rate, however, some oppose it.

This short paper sets forth a third option that falls between the Kerrey-Danforth and Rostenkowski proposals. It seeks to restore actuarial balance to Social Security without cuts of the magnitude of those included in the Kerrey-Danforth proposal or increases in the payroll tax rate.

AGE AT WHICH FULL BENEFITS ARE PAID

The scheduled increase to 67 in the age at which full benefits are paid would be speeded up. I would note that as this age rises, Social Security benefits for those who retire at age 62 are lowered, and as a consequence, some people who cannot work beyond age 62 will slip below the poverty line. To help address this problem, I would recommend that the phased increase in the "full benefit age" (often called the "retirement age," although that is a less accurate description) for Social Security should be accompanied by a phased decrease from 65 to 62 in the age at which indigent individuals can qualify for the

PREVENTING EROSION OF THE SOCIAL SECURITY REVENUE BASE

The Social Security revenue base has been eroding in recent years for two reasons. The principal reason is that a steadily increasing share of compensation is paid in fringe benefits rather than wages. The second reason is that wages and salaries have been rising fastest in the upper parts of the income scale. Since the incomes of those at high income levels exceed the Social Security tax threshold, income growth at these levels results in no additional payments to the Social Security Trust Fund.

Some 82 percent of total compensation is now subject to the Social Security payroll tax. By 2030, this is scheduled to drop to 77 percent. The expected drop in the proportion of compensation subject to the tax is one of the reasons Social Security is out of long-term balance.

This option is designed to prevent further erosion and to maintain the proportion of compensation that is subject to the payroll tax at 82 percent. This can be done in any of several ways. One way is to raise the taxable wage ceiling to the level needed to keep 82 percent of compensation subject to the payroll tax. How much is saved depends on whether the wage ceiling is raised only for the employer share of the payroll tax or for both the employee and the employer shares. The savings are larger if the ceiling is raised only for employer contributions; if it is raised for employee contributions as well, larger benefits will have to be paid out when these employees retire.

This set of proposals should bring Social Security close to long-term actuarial balance. If it falls short of achieving balance, additional changes to consider would include: altering the bend points to make a one percent uniform benefit reduction (except for those below the first bend point); placing the thresholds for counting 85 percent of benefits in taxable income at $25,000 and $32,000 as proposed by the Clinton Administration; using half rather than all of the savings from reducing spousal benefits to increase widows benefits; eventually raising the full benefit age to 68; and adding a fraction of a percentage point to the payroll tax rate. Only one or two of these options should be needed. ★