# Reports of the 1979 Advisory Council on Social Security*

The 1979 Advisory Council on Social Security, appointed in February 1978, was charged with reviewing all aspects of the social security program, particularly financing, the general benefit structure, universal coverage, disability insurance, and the treatment of women and families. After 17 meetings and six days of public hearings in Detroit, Los Angeles, Miami, New Orleans, and Washington, D.C., the Council released its findings early in December 1979. Major recommendations include a change in Medicare financing from payroll to income taxes, modification of the benefit formula to ensure that workers with a long history of low wages receive retirement incomes high enough to keep them out of poverty and that high-wage workers be assured a more generous return on their contributions, and a change in the treatment of women to account for their increasing labor-force participation and a rise in the divorce rate. Though the Council is an independent group whose recommendations are not binding upon any official body, many positions taken by previous Councils have led to changes in the law. The executive summary of the report is carried in full below, together with the major recommendations of the Council.

## Executive Summary

### Financing

Mindful of the extent and nature of concern about the financing of the social security system, the council has reviewed its financial soundness, projections of its future condition, and the history of Congressional and public attitudes toward social security financing. After reviewing the evidence, the council is convinced that all current and future social security beneficiaries can count on receiving the benefits to which they are entitled.

The council also believes that the financial soundness and equity of the system would be improved by financing at least part of social security benefits from general revenues. It also believes that the ad hoc increases in the earnings base, the maximum amount of earnings subject to social security taxes, should be repealed. Specifically, the council recommends:

- Financing the hospital insurance (HI) program (part A of medicare) entirely from earmarked portions of the personal and coporation income taxes, rather than from payroll taxes.
- Allocating part of the current HI payroll tax to the old-age and survivors' and disability (OASDI) cash benefits programs.
- Repealing the balance of the HI payroll tax.
- Repealing the ad hoc increases in the earnings base scheduled for 1980 and 1981. In the future, the earnings base would be increased only to reflect increases in the level of average wages.

The combined effect of these recommendations would be a significant reduction in the social security taxes scheduled to be paid in the next few years. As shown in table 1, under the intermediate assumptions of the 1979 trustees' report, the total tax rate for employers and employees (each) could be set at 5.6 percent. Under present law, the rate for OASDHI is scheduled to be 6.13 percent in 1980 and 6.65 percent in 1981. The earnings base would be $24,900 in 1980, rather than $25,900 as scheduled under present law, and $27,000 in 1981, rather than $29,700. The council recognized that the future direction of the economy is uncer-

*For further details on these and other recommendations, see **Social Security Financing and Benefits: Reports of the 1979 Advisory Council on Social Security**, Departmentof Health, Education, and Welfare, December 7, 1979.

**Table 1.**—Tax rate (percent of earnings) and earnings base under present law and Advisory Council's proposal[1]

| Year | Tax rate, (employer and employee, each) | | | | | | Earnings base | |
|---|---|---|---|---|---|---|---|---|
| | Total | | OASDI | | HI | | | |
| | Present law | Proposal | Present law | Proposal | Present law | Proposal | Present law | Proposal |
| 1979 | 6.13 | 6.13 | 5.08 | 5.08 | 1.05 | 1.05 | $22,900 | $22,900 |
| 1980 | 6.13 | 5.6 | 5.08 | 5.6 | 1.05 | 0 | 25,900 | 24,900 |
| 1981 | 6.65 | 5.6 | 5.35 | 5.6 | 1.30 | 0 | 29,700 | 27,000 |
| 1982 | 6.70 | 5.6 | 5.40 | 5.6 | 1.30 | 0 | 32,100 | 29,100 |

[1] Based on Intermediate Assumptions in 1979 Trustees' Report.

tain as its report was being prepared. If, at the time the Congress is considering action, economic projections are less favorable than those in the 1979 trustees' report, the appropriate tax rate may be somewhat higher than 5.6 percent.

If the Congress does not implement its proposal to finance hospital insurance entirely from earmarked corporation and personal income taxes, the council recommends that, at a minimum, the increase in the HI payroll tax rate scheduled for 1981—0.25 percent for employers and employees each—be replaced with general revenues. Elimination of this increase alone would reduce the total (OASDHI) tax rate for employees and employers each in 1981 to 6.4 percent, rather than the 6.65-percent rate in current law.

Despite the fact that the payroll tax falls more heavily on those with low incomes than does the federal income tax and that the payroll tax continues to be an appropriate source of revenue for the social security cash benefit programs: "These programs pay benefits that are related to a person's earnings, and the council believes that they should be financed by a tax on those same earnings."

However, the council believes that this logic does not apply to the hospital insurance program, because everyone who is eligible receives the same protection. Benefits are related not to prior earnings but to the medical care received.

Although it believes general revenues should be used to finance hospital insurance, the council believes that the taxes used to generate those revenues should be earmarked, both to provide a measure of fiscal restraint and to ensure that benefits will be paid without a means test.

In recommending repeal of the ad hoc increases in the earnings base, the council noted that "social security was designed from the beginning to work in combination with private pensions and saving. Increasing the earnings base beyond its current level would extend social security coverage to a level of income where forced saving is unnecessary and where the provision of additional retirement income is better left to private saving and pensions."

The council also recommends that the payroll tax rate continue to be the same for employees and employers and that, as long as inflation remains a serious problem, the earnings base also be equal for employees and employers. A narrow majority of the council believes elimination of the ceiling on which employers pay taxes should be considered once inflation abates. These members argued that the employer tax should be considered a contribution to the system as a whole, rather than on behalf of individual employees.

To protect social security against economic fluctuations, the council recommends:

- Making payments to the trust fund from general revenues if reserves are less than 60 percent of annual outlays, in the manner proposed by the Administration in 1977. This would help compensate the system for revenues lost because of high unemployment. This provision would reduce the need to raise payroll taxes during a recession, reduce the level of reserves ordinarily needed for safe operation of the system, and introduce general revenues into the OASDI programs in a way that strictly limits their use.
- Authorizing the trust funds to borrow from the general fund if reserves fall below about three months' outlays. Repayment of such a loan would begin whenever the balance in the funds reached about five months' outlays. If the loan were not repaid within two years, then the council recommends that payroll taxes be increased automatically to repay the amount outstanding, provided that the national unemployment rate is below a specified level—say 6.5 percent.
- Combining the old-age and survivors' trust fund with the disability insurance trust fund to permit revenue transfers between the two programs. This would prevent the need for legislative action to readjust taxes when one fund is low and the other is amply financed.

The council also:

- Recommends that the social security cash benefits programs be brought into long-run actuarial balance by scheduling a payroll tax rate increase beginning in the year 2005.
- Rejects the use of a value-added tax to finance social security.
- Finds that the methodology now used to make financial projections is sound and that the assumptions are reasonable.
- Recommends continuation of 75-year forecasts.
- Recommends continuation of current-cost financing, and recommends that reserve balances be maintained at a level equal to about 75 percent of outlays to provide protection against a recession. (If the council's proposals for use of general revenues and borrowing authority during a recession were adopted, a reserve of 60 percent of outlays would be sufficient.)

## Structure of Social Security Benefits

The council supports three basic principles to govern the pattern of social security benefits.

First, the council endorses the traditional principle that social security should reflect a balance between adequacy and equity goals. Low-wage earners should continue to receive proportionately higher benefits than high-wage earners receive. The council rejects the recurrent proposal to make social security benefits strictly proportional to earnings—a proposal that would force an unacceptably high proportion of the aged and disabled to rely on means-tested programs. The council also rejects proposals to pay flat rate benefits that would bear little if any relation to prior earnings; the council believes benefits should bear a reasonable relationship to a worker's prior standard of living.

Second, the council believes that those who work full time for at least 30 years and earn hourly wages equal to about the federal minimum wage should be assured a retirement benefit at age 65 that keeps them out of poverty. The council does not believe, however, that social security should be expected to assure a poverty level income for those who do not work full time most of their lives in covered employment.

Third, the council believes that all current and future workers should be able to expect that social security benefits generated by increased earnings will provide a reasonable return on the increased employee tax payments on those earnings. As a worker's earnings increase, he or she should expect additional benefit protection that represents a reasonable return on the additional taxes he or she will pay on the basis of those additional earnings.

Although the present benefit formula is in accord with the first principle, it does not satisfy the second and third. Single persons who have worked full time at the federal minimum wage do not now receive a benefit sufficient to keep them out of poverty. And for those now entering the labor force who do not marry and who have earnings consistently at or near the taxable maximum, increases in taxes paid will not necessarily lead to equivalent increases in benefits received.

The council therefore recommends a new social security benefit formula that would guarantee long-service workers with average earnings at or somewhat below the federal minimum wage benefits at least equal to the poverty threshold. The formula also would assure most high-wage workers a better return on additional social security employee tax payments.

Under present law, a worker retiring at age 65 will receive a benefit that replaces 90 percent of the first $180 of his or her average indexed monthly earnings (AIME), plus 32 percent of the next $905 of AIME, plus 15 percent of AIME above $1,085. The new benefit formula would replace 61 percent of the first $442 of AIME plus 27 percent of any additional AIME. Further, the council recommends that, as under present law, the brackets be increased annually to reflect increases in average wage levels so that average benefits for future retirees will increase at the same rate that average wages are increasing. The council also recommends liberalizing the special minimum benefit for those with long histories of work at low wages.

**Taxation of benefits.** Because social security benefits are derived from earnings in covered employment, just as is the case with private pensions, the council believes social security benefits should be subject to taxation in the same general way that private pension income is taxed. The accumulated employee tax payments of workers now entering the labor force will amount to no more than about 17 percent of the benefits that the workers can expect to receive (for the self-employed, they will amount to no more than about 26 percent). The difference between the amount of taxes that they themselves pay and the amount of benefits they can expect to receive represents: (1) the amount of their employers' payroll tax payments and (2) a sum which is analogous to interest earnings on both employer and employee tax payments. If social security benefits were taxed in the same way as private pensions, about 83 percent of an employee's social security benefit (and 75 percent of a self-employed person's benefit) would be subject to taxation.

Because of lack of necessary data, taxing social security benefits in exactly the same fashion as private pensions would be quite difficult. It would also result in taxing more of the benefit than most people would consider appropriate. Therefore the council recommends including half of all social security benefits in income of a couple or of an individual that is subject to federal income taxes.

The elderly are allowed double tax exemptions. In combination with the zero bracket—the amount of income all filers are allowed before any income tax liability results—this guarantees that virtually no aged persons or couples today would pay any additional income tax if social security were their only source of income. If a couple's only income were from social security, its benefits would have to exceed $14,800 before there would be any income tax. Of the 24.2 million filing units (individuals and couples filing jointly) receiving social security benefits, 10.6 million would pay additional taxes. The average increase for those who would pay increased taxes would be $350. The estimated additional revenue to the general fund from this provision would be about $3.7 billion per year.

**Averaging period.** In calculating social security benefits, workers must count all years between 1950 or the year they turn 21 up until the year they turn 62, die, or become disabled. Five years of low or no earnings may be excluded from this calculation, but if a worker has more than five years of low earnings or of work outside covered employment, these low or zero years must be entered into the calculation. Young workers may exclude a disproportionately high number of years from the averaging period because by dropping five years from a work life as short as seven years, their benefit can be based on only their two highest years of earnings. This policy thus results in higher benefits for young disabled workers and the survivors of young deceasd workers than are awarded to older retired or disabled workers and their survivors with similar earnings records. The council thus recommends that workers be allowed to drop one year from the averaging period of each six years elapsing between age 22 and the age of eligibility for benefits.

**Semiannual cost-of-living increases.** A narrow majority of the council recommends that, as soon as administratively feasible, social security benefits be increased twice a year —in March and September—whenever prices have risen by at least 3 percent since the last cost-of-living adjustment was made.

**Double-decker plan.** The council considered and rejected a double-decker plan under which each aged and disabled person and surviving child would receive a flat grant paid from general revenues, with an additional benefit directly proportional to past covered earnings paid to social security contributors but not to their dependents or survivors. The council believes that the weighted benefit formula in the present system performs its functions well and sees no need for the kind of radical change embodied in the double-decker plan. In general, the majority believes that the major upheaval such a change would entail would have the potential of creating important and needless risks, such as reduced benefits for many dependents and survivors, lower benefits for workers, increased reliance on means-testing, and substantially higher program costs.

## Women

As more women work, as divorce becomes more common, and as the economic value of homemaking is increasingly recognized, concern about the way in which social security benefits are paid to women has grown. The council spent more time on these issues than on any other.

The council notes that the adequacy and equity of benefits for women can be measured against several criteria. On the most fundamental level, the social security law is largely sex-blind. With few exceptions (which the Administration and the council recommend be eliminated), benefits are not paid on the basis of sex, but rather on the basis of labor-force attachment and family status. The council also notes that as a group, women get as good a return on the social security taxes they pay as do men. Indeed, if separate systems were established for men and women, workers would have to pay social security taxes that are about 9 percent higher than men would pay. Because the average wages of women are lower than men's, a greater portion of their wages is replaced by benefits because of the weighting in the formula for low-income workers. Also, because women tend to live longer, they collect more benefits than men. These two factors outweigh the fact that more dependents' benefits are paid on the basis of men's wage records than are paid on the basis of women's wage records.

However, if the adequacy and equity of benefits for particular groups of women are examined, major problems become apparent:

- The increasing frequency of divorce has dramatized the long-standing problem of the inadequacy of dependents' benefits for divorced women.
- Benefits for widows, regardless of age, also are inadequate. About one in three aged widows and widowers is living in poverty—even if they receive social security benefits. And benefits for elderly women who have never married are generally lower even than benefits for widows.
- Women who stop working to rear children are penalized for their childcare years.
- Not all women who work receive higher retirement benefits than they would if they did not work.
- If two couples have the same earnings, the couple where only one spouse worked will receive higher retirement benefits than the couple where both husband and wife worked.

Further, as marriage increasingly is viewed as an economic partnership, concern has risen that homemakers are not insured against disability and that their survivors are not entitled to benefits when they die. This view of marriage also has made it philosophically distasteful to many women to receive benefits as economic dependents of men.

After reviewing a wide range of alternatives, the council concluded that a system to base social security benefits for husbands and wives on half a couple's combined earnings represents the most promising approach to addressing these issues relating to women.

Although the council believes that the need to improve the treatment of women in the social security system is urgent, it did not endorse a full-scale earnings-sharing plan at this time. Most council members were unwilling to make an unqualified recommendation that a full-scale earnings-sharing plan be adopted until they could be convinced that acceptable ways exist to address adequately some of the issues remaining in any of the specific plans developed so far. The council also believes that because earnings sharing would represent a fundamental change in the structure of social security, it should not be implemented until it has been more widely debated and understood by those who would be affected by it.

**Limited approaches.** However, a narrow majority of the council does recommend two elements of a full-scale earnings-sharing system for immediate implementation. These proposals would permit persons divorced after at least ten years of marriage to receive retirement benefits based on shared earnings from the years they were married and permit aged widows and widowers to receive benefits based on the couple's combined earnings. A substantial minority of the council believes even these more limited approaches should not be implemented without further public debate and without resolution of the remaining technical problems with their implementation.

Although these two elements would not address all of the issues relating to benefits for women, they would address several of the more critical problems, and their enactment would be consistent with subsequent implementation of a full-scale earnings-sharing system.

The first proposal would permit either partner of a marriage that ended in divorce after at least ten years of marriage to receive benefits based on half the couple's combined earnings for the years of the marriage.

Under this limited form of earnings sharing, the credits gained or lost through sharing would not affect eligibility for either disability or survivors' benefits or the level of disability or survivor benefits. But these credits would affect the level of retirement benefits: Divorced women generally would receive higher retirement benefits and divorced men lower benefits on the basis of their shared earnings than they would receive under present law. Now, a divorced woman is eligible for a retirement benefit equal to only half ex-husband's benefit.

The second proposal would permit a survivor to inherit the earnings credits of his or her deceased spouse. All of the earnings credits of the deceased spouse that were earned in years during which the two were married would be added to the earnings credits of the surviving spouse. Thus surviving spouses of couples where both partners worked would receive higher benefits than they would under present law, where the benefit is based only on the earnings of the higher paid spouse.

A narrow majority of the council also recommends that serious consideration be given to proposals that would permit parents to drop one or more years spent caring for children from the averaging period.

## Minorities

The council has examined the allegation that members of minority groups fare less well than others under social security and concludes that it is unfounded.

This allegation stems first from the fact that persons from racial and ethnic minorities, notably blacks, Hispanics, and American Indians, have shorter life expectancies than whites. It also stems from the tendency of minority persons to begin working sooner than whites and thus to pay social security taxes for longer periods than whites.

The council finds that the shorter life expectancy of minorities does mean that they are somewhat less likely than others to receive retirement benefits. However, this is offset by the fact that minorities are more likely to receive disability and survivors' benefits. Further, the social security benefit formula provides workers with lower earnings a higher benefit relative to their previous earnings than is provided to those with higher earnings. Thus, as long as minorities continue to be paid or to experience more unemployment than the average worker, the weighting in the benefit formula provides minorities the advantage of higher benefits relative to taxes paid than is true for others.

Any differences in the treatment of minority and nonminority persons does not flow from the deliberate design of the social security program, because the social security law is color-blind. Rather, the question of whether minorities are treated fairly relates to the effect of color-blind law on groups who have suffered and who, though there have been improvements, continue to suffer from discrimination and continue to earn less on average than whites. The consequences of such discrimination are deplorable and demand the continued priority attention of the nation. It would be neither appropriate nor desirable to try to use the social security system as a means to deal with these problems. Nevertheless, it is important that laws drafted without the intent to discriminate not do so inadvertently.

The council therefore urges that the effect of changes in social security on minorities receive explicit attention whenever proposals for change are being considered. The council believes many of its recommendations will be of particular assistance to minority group members, but it rejects introducing into social security explicit differentiation among groups on the basis of race or ethnic origin.

The council also recommends that the Social Security Administration give high priority to further research and analysis concerning the extent to which minority groups benefit from social security programs.

## Disability

The disability program is difficult to design and administer because objective medical and vocational standards cannot distinguish perfectly between those who are and are not able to work. For example, personal motivation is very significant in determining whether a person can work, yet motivation cannot be precisely measured. It is inevitable that some who could work will be found to be disabled and that some who cannot work will be denied benefits.

Because personal motivation is so important, the council is concerned that incentives to return to work be strong for those who have some hope of returning to self-sufficiency. Most obstacles to finding employment are outside the social security system. Nevertheless, the initial determination process, benefit levels, review procedures, and all other aspects of the disability program must be structured to foster efforts to return to work, while at the same time not denying benefits to those who cannot be expected to return to gainful employment. Benefits must also be structured so that the severely disabled—and their dependents—are not impoverished. In its recommendations the council has attempted to balance these concerns.

**Family maximum on disability benefits.** The council recommends that benefits paid to a family on the basis of an individual worker's disability be limited to a greater extent than they are under the old-age and survivors' program, but a narrow majority of the council believes that the limit should be no more strict than a maximum of 90 percent of the worker's highest five consecutive years of wage-indexed earnings. A substantial minority of the council favors a stricter limit at 80 or 90 percent of averaged indexed monthly earnings or 150 percent of the primary insurance amount, whichever is less.

The council also recommends that a similar limit be applied to each family's receipt of all federal disability benefits taken together.

The council believes these limits are necessary to ensure that beneifts paid to a disabled worker's family do not exceed the worker's after-tax income before he or she became disabled. If the program replaces more income than was lost, monetary incentives for the worker to seek employment are lost.

**Definition of disability.** The council recommends that the definition of disability under title II be liberalized for older workers by applying to those aged 55 to 60 the same criteria now applicable to those older than 60. In the SSI program, where disability benefits generally are lower and are paid only to those with little or no other income and only limited assets, standards for eligibility need not be as strict as for the title II program. The council therefore recommends that HEW develop a definition of disability for the SSI program that is less strict than the definition used under title II.

**Work incentives.** The council endorses several proposals supported by the Administration that have been adopted by the House of Representatives. These include provisions that would encourage disabled persons with residual work capacity to return to work by allowing them to deduct work-related expenses in determining whether the work effort constitutes "substantial gainful activity"; by permitting automatic reinstatement of benefits in the first year after cash benefits have stopped; by extending the trial work period to widows and widowers; by indexing the dollar level used to determine substantial gainful activity; and by extending eligibility for medicare and medicaid. The council also recommends that SSA be given the funds and authority to experiment with other work incentive proposals.

**Attendant care.** The council believes that greater efforts should be made to provide attendant care to the disabled, but believes attendant care should be viewed as a social service rather than as an entitlement under the social security or SSI disability programs. The council also believes that in many cases the spouse of the disabled worker is the most appropriate person to provide attendant care. In cases where the spouse is providing care for an SSI recipient, the council believes compensation to the spouse for providing the care should not be considered income available to the SSI recipient for purposes of calculating the recipient's SSI benefit.

**Private rehabilitation services.** The council believes that HEW or another appropriate federal agency should be given the authority and funds to review federally financed rehabilitation programs and to assess ways in which public rehabilitation services could be improved.

**Periodic review.** The council recommends that SSA improve its review of the continued eligibility of disabled beneficiaries who may recover from their impairments. If additional staff and funds are needed to perform these reviews, they should be provided, by legislation if necessary.

**Disabled spouses and disabled widows and widowers.** Disabled widows and widowers now are eligible for survivors' benefits when they reach age 50, but their benefits are permanently reduced if they first apply before they are 65 years old. The council believes that the requirement that disabled widows and widowers be 50 years old to be eligible for benefits should be eliminated and that the full benefit should be paid regardless of the individual's age.

Disabled spouses of disabled or retired workers are not eligible for benefits as dependent spouses. Like nondisabled spouses of retired or disabled workers, they are entitled to benefits only when they reach age 62 or if they are caring for a child under 18 (or a child disabled before age 22). The council believes disabled wives and husbands of disabled and retired workers should be eligible for benefits regardless of age.

**Waiting period.** A narrow majority of the council recommends that the waiting period between the time a worker becomes disabled and the time he or she becomes eligible for benefits be reduced from five to three months.

**Recency-of-work.** A narrow majority of the council also believes serious consideration should be given to liberalizing the requirement that applicants have worked in covered employment for 20 out of the last 40 quarters to be eligible for disability.

## Coverage

The council finds that the nation's income security goals can be achieved fully and equitably only if all employment is covered by social security. At present, 10 percent of all jobs are not covered by social security—primarily civilian employees of the federal government, some employees of state and local governments, and some employees of nonprofit institutions. This lack of universal coverage leads to several major problems:

- Some plans that are alternatives to social security offer considerably less adequate protection than social security provides.
- Those who move back and forth between covered and noncovered employment may not be protected by either system for extended periods and they may retire with lower benefits than they would receive if they had worked exclusively under either system.
- Some who work in both covered and noncovered employment receive social security benefits that replace a

very high fraction of their earnings in employment covered by social securty—the high replacement rates that are intended for regular low-wage workers.

In order to alleviate these problems the council recommends that social security coverage be extended to all federal employees either through mandatory coverage of all new employees or through a transfer-of-credit plan and it recommends mandatory coverage for all newly hired employees of state and local governments and of nonprofit institutions. The council believes that extending social security coverage in this way will preserve the rights of present employees of federal, state, and local governments and of nonprofit institutions and allow employers to develop supplemental plans which, together with social security, offer newly hired workers a level of protection roughly equal to that provided presently.

**Interim steps.** Until all workers are covered by social security, the council recommends as interim steps that:

- An earnings offset be instituted for those who have earnings under both social security and noncovered employment.
- All current and future agreements implementing coverage for state and local workers be made irrevocable. (If this is not adopted, terminations should only be permitted after a vote of affected employees.)
- The divided retirement system procedure be made available to all states.
- The payment of an employee's social security tax (FICA) by an employer should be taxed and credited as wages for social security purposes except in the case of domestic employment.
- Employers be required to pay employer taxes on the full amount of tips received by their employees.

The earnings of farm workers be taxed and credited under social security from the first dollar of earnings if the farm operator has expenditures of $2,500 annually for farm labor; the farm operator should be considered to be the employer of workers furnished by a crew leader.

## Retirement Policy and Other Benefit Issues

A narrow majority of the council recommends that consideration be given to enactment now of an increase in the retirement age to 68, effective after the turn of the century. Present demographic projections indicate that the cost of financing the social security system will rise sharply in the 21st century if the normal retirement age is not increased (and the benefit payable to those retiring at age 65 is not reduced). The council majority believes that action must be taken in the near future if workers are to have ample time to adjust to a new retirement age. Other council members believe there is no demonstrable need to increase the retirement age. At the very least, they believe consideration of a change should be postponed until jobs for older workers are more abundant and until the health of older persons has improved.

**Early retirement.** The council recommends continuation of the actuarial provisions which allow retirement benefits to be drawn as early as age 62 (with an actuarial reduction for persons retiring before age 65). It recommends consideration of a special program to provide long-term unemployment benefits for those who are approaching the normal retirement age but are unable to find a job. Such a program would pay benefits until a worker turned 65, as long as he or she were willing and able to work, and would be sufficient to make it unnecessary for older workers to claim early retirement benefits.

**Earnings test.** In addition, the council recommends no increase in the earnings (or retirement) test for workers 65 or older but suggests that the earnings test for those younger than 65 be increased so that it is the same as for those older than 65. Although it recognized that the earnings test is one of the most unpopular and controversial aspects of the social security system, the council believes elimination of the test would, by definition, help more those who need help least since, by definition, those who would benefit are those with substantial earnings. The council therefore believes a relaxation of the earnings test should not take priority over other benefit improvements. However, the council saw no reason why the test for those younger than 65 should differ from that for those older than 65.

**Administration OASI proposals.** The council also rejected Administration proposals to:

- Phase out the regular minimum benefit more rapidly than would occur under present law.
- Provide the lump-sum death benefit only to SSI recipients and their survivors. Further a narrow majority of the council recommends not only that the lump-sum death payment be continued but also that it be increased from $255 to three times the primary insurance amount or $500, whichever is less.
- Phase out benefits for students aged 18 to 22 who are children of retired, deceased, or disabled workers.
- Phase out benefits for mothers caring for nondisabled children aged 16 to 18.
- Eliminate benefits to young survivors of those who die after earning currently insured status, but who had not yet earned fully insured status.

**Program administration.** With regard to the administration of the social security programs, the council:

- Recommends that SSA pursue further efforts to improve the quality and clarity of the notices sent to beneficiaries concerning awards, changes, and denials.
- Recommends that those provisions of the House-passed disability bill that related to disability determinations be considered minimum steps toward providing more efficient, speedy, just, and humane service and that

direct federal administration of the entire disability insurance program be seriously considered.

- Supports efforts by the Social Security Administration to increase public participation in the development of SSA's policies and procedures, provide greater protection of the rights of applicants and beneficiaries, and improve service to non-English-speaking persons. The council recommends that SSA establish ongoing panels as a means of improving the communications between SSA and the public.
- Recommends that SSA increase its efforts to administer its programs in a way that reflects awareness of and sensitivity to the special circumstances of minority groups.
- Recommends that increased emphasis be placed on the responsiveness of SSI program administration to the special needs and vulnerabilities of the aged, blind, and disabled.
- Endorses SSA's efforts to inform people who are about to enter the work force about the value of social security protection and their obligations as social security taxpayers.

## Private Pensions and SSI

The social seecurity programs are but one part of a complex set of public and private approaches to income maintenance. Support is available from four basic sources when earnings stop: social security based on past earnings; saving, insurance, annuities, and other voluntary personal arrangements; private pensions; and public programs based on current need. The council believes that the social security program must always be viewed in the context of these other important elements of the income maintenance system.

For that reason, the council also recommends that serious consideration be given to improving the private pension system. It is particularly concerned about the problems of adequacy of coverage under private plans, the portability of pension rights, the updating of pension credits from prior employment, the unequal effect of many private pension systems on women workers, and the updating of pension benefits to take account of inflation after retirement.

**SSI.** It also recommends a series of improvements for the supplemental security income (SSI) program. Specifically, it recommends that:

- Total benefits for all SSI recipients gradually be brought up to the poverty line through the combined effects of social security, SSI, state SSI supplements, food stamps, and other income sources. As an interim measure, the council recommends that federal matching funds be offered to states that raise their supplementary payment levels to the poverty line.
- SSI households eligible for food stamps be paid the value of their food stamp allotment in cash.
- SSI resource limits be updated and automatically adjusted each year for changes in the cost of living.
- The present disregard of $20 a month for unearned income be updated to present values—about $30—and kept up to date with inflation automatically in the future.
- The value of household goods and personal effects, including the value of automobiles, be disregarded in determining SSI eligibility.

The council also recommends that serious consideration be given to:

- Providing benefits to needy spouses of SSI recipients when the spouse turns age 62 and to minor dependent children of SSI recipients.
- Liberalizing the one-third reduction in benefits to recipients who live in the households of another.

## Medicare

Since the early days of social security, advisory councils have been appointed periodically to review the status of the social security program. In 1965, with the enactment of medicare, the mandate of the statutory advisory council on social security was amended to include review of the medicare program.

None of the councils appointed since the medicare program was enacted has been able to comply fully with the requirement to report on the hospital and supplementary medical insurance programs. This council is no exception.

It has been the observation of prior councils, and this council agrees, that the 18-month to two-year period between the time a council is appointed and the time its final report is due is not sufficient to allow a responsible and comprehensive review of both the cash benefits and medicare programs.

Moreover, in the future, medicare should be thought of as one part of a broader national health plan; it should be examined in conjunction with medicaid—a state-administered program that provides for the cost of health care for individuals on the basis of the need—and other elements of any national health plan.

This council therefore believes that the mandate of future advisory councils on social security should be limited to the social security cash benefits program and that a separate advisory council should be established periodically to review the medicare and medicaid programs.

Although it reviewed medicare benefits only briefly, the council spent considerable time in its study of medicare financing. (The council's recommendations on medicare financing were outlined above along with its recommendations on financing cash benefits.) Of obvious concern is the status of the hospital insurance trust fund. As indicated in The 1978 Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, present projections show that the hospital insurance trust fund is able to pay for services in the short run, but that the trust fund will be depleted by about 1992 under current financing arrangements. The council's recommendation to change the way in which the hospital insurance program is financed would resolve this problem.

The supplementary medical insurance program, part B of medicare, is financed from the general revenues and from premiums paid by participants. Supplementary medical insurance cost estimates are made, and revenues provided, only on a current basis; income and expenditures are not projected for more than two years. The council finds that for fiscal years 1979 and 1980 trust income from part B premiums, along with anticipated appropriations from the general fund, are sufficient to finance total program costs.

# Summary of Major Findings and Recommendations*

## Chapter 1. Basic Findings

The council is unanimous in finding the social security system is the government's most successful social program. It provides basic retirement, disability, and survivorship protection which American workers can supplement with their own savings and private pensions, and it will continue to provide this protection for as far ahead as anyone can see.

After reviewing the evidence, the council is unanimously convinced that all current and future social security beneficiaries can count on receiving all the benefits to which they are entitled.

## Chapter 2. Financing

**Reducing reliance on the payroll tax.** The council unanimously finds that the time has come to finance some part of social security with nonpayroll tax revenues. The majority of the council recommends that the hospital insurance program be financed entirely through earmarked portions of the personal and corporation income taxes and beginning in 1980, that a part of the current hospital insurance payroll tax be diverted to the cash benefits program to guarantee their financial soundness, and that the balance of the hospital insurance payroll tax be repealed.

If the previous recommendation is not enacted, the council unanimously recommends that the 1981 increase in payroll tax rates for hospital insurance (0.25 percent for employees and employers each) be replaced by general revenues.

The council majority recommends that the social security cash benefits program be brought into long-run actuarial balance by scheduling a payroll tax rate increase in the year 2005.

The council unanimously rejects the use of a value-added tax to finance social security.

*For supplementary statements on the scope of the Council's recommendations by Morton D. Miller and on the nature of Council decisions by Melvin A. Glasser, Velma M. Hill, and Bert Seidman, see **Social Security Financing and Benefits . . .**, op. cit.

**Level of the earnings base.** The council majority recommends that the social security earnings base for employees be set at a level that captures the same fraction of aggregate earnings that was captured in 1979. It also recommends that the payroll tax rate at which employers pay social security taxes continue to be the same as that for employees.The council recommends that as long as inflation remains a serious problem, the base on which employers and employees pay taxes remain equal, but a narrow majority believes that the option of a higher employer base be considered when inflation abates.

**Financial projections for social security.** The council finds that the methodology now used to make financial projections is sound and that the assumptions are reasonable. The council recommends, however, that more systematic account should be taken of the interrelationships among the different economic and demographic assumptions underlying the projections.

The council recommends that 75-year financial projections continue to be made; these projections focus public attention on long-run economic and social trends that will significantly affect the cost of benefits. Decisions to alter presently scheduled social security benefit payments or the present schedule for social security financing, however, should not be made primarily on the basis of economic and demographic projections more than 50 years in the future.

**Current-cost financing and the role of the trust funds.** The council unanimously recommends that the social security system continue to be financed on a current-cost basis with the trust funds continuing to serve primarily as contingency reserves.

The council finds that a reserve balance of 75 percent of annual outlays is sufficient for contingencies in the absence of the council's proposals for countercyclical general revenues. If this proposal is adopted, a reserve of 60 percent of annual outlays is a sufficient contingency.

The council recommends that the trustees notify the appropriate committees of Congress promptly if any of the trust funds is expected to fall below this target level or to exceed it greatly.

**Protecting social security against economic fluctuations.** The council majority recommends general revenue payments to the social security trust funds during periods of high unemployment to compensate the trust funds for revenues lost due to high unemployment. Such payments would be made only if the reserves were less than about 60 percent of annual outlays.

A majority of the council also recommends that the trust funds be authorized to borrow from the Treasury in the event that reserves fall below about three months' payments of benefits.

In the event of such borrowing, repayment of the loan should begin automatically when reserves reached about five months' payments. To assure repayment, payroll taxes should be increased automatically if the loan were not otherwise repaid within two years, provided that unemployment was not greater than about 6.5 percent.

The council unanimously recommends the merger of the Old-Age and Survivors' Insurance Trust Fund and the Disability Insurance Trust Fund into a single fund, with retention of separate annual cost analyses.

## Chapter 3. Benefit Structure

**Basic principles.** The council supports three basic principles governing the design of the social security benefit formula:

(1) The council unanimously endorses the traditional principle that social security should reflect a balance between the goals of adequacy and equity. Low-wage earners should continue to get proportionately higher benefits than high-wage earners receive.

(2) A majority of the council believes that workers who have a regular attachment to full-time employment covered by social security for at least 30 years should become entitled to a retirement benefit at age 65 that keeps them out of poverty. Workers who earn more should receive more. Social security cannot be expected, however, to assure a poverty level income for workers who do not spend most of their working lifetimes under social security or who work only part time during most of their careers.

(3) The council unanimously believes that all current and future workers should be able to expect that social security benefits generated by increased earnings will provide a reasonable return on the increased employee tax payments on those earnings.

**Revised benefit formula.** The council recommends a new benefit formula that will increase benefits for long-term low-wage workers and for high-wage workers becoming entitled in the future.

**Future replacement rates.** The council recommends that the replacement rates that are provided for workers with low, average, and high relative wages by its revised benefit formula be maintained in future years.

**Tax treatment of benefits.** The council majority recommends that half of social security benefits be included in taxable income for federal income taxes.

**Averaging period.** The council majority finds that social security benefits should continue to be based on a worker's career average earnings in employment covered by social security. It believes that the average indexed monthly earnings [AIME] figure would better represent career average earnings if the number of years of low earnings disregarded were scaled to the worker's age. It proposes that the number of years a younger worker may disregard be reduced and the number of years a future retiree may disregard be increased by one. Beyond this change, however, the council majority opposes any further increase in the number of years of low earnings omitted from the AIME calculation.

**Double-decker plan.** The council considered and rejected a double-decker system, under which each aged and disabled person and surviving children would receive a flat grant paid (at least in part) from general revenues, with an additional benefit directly proportional to past covered earnings paid to social security contributors but not to their dependents.

**Semiannual cost-of-living increases.** A narrow majority of the council recommends that, as soon as it is administratively feasible, social security benefits be increased twice a year—in March and September—whenever prices have risen by at least 3 percent since the measuring period on which the last cost-of-living adjustment was based.

## Chapter 4. Social Security and Women

The council recognizes that major changes in the economic role of women and in the institution of marriage have occurred since social security was enacted.

These changes call for modifications in the ways in which the social security system treats women.

The majority of the council finds that some system for the sharing of earnings is the most promising approach to these issues.

Because of the complexity and far-reaching implications of the changes that would occur under earnings sharing, and because some problems remain in all specific plans the council has seen, the majority of the advisory council is not prepared to endorse a full-scale earnings-sharing plan at this time.

A narrow majority of the council recommends two elements of this plan for immediate implementation. These proposals address the needs of divorced women and of elderly widows and widowers. These proposals, which could be added to the present law, would:

- Permit persons divorced after at least ten years of marriage to receive retirement benefits based on shared earnings.
- Permit aged widows or widowers to receive benefits on the basis of the couple's combined earnings.

The council believes that change as fundamental as full-scale earnings sharing needs to be carefully considered and thoroughly debated by citizens and interest groups throughout the country. Therefore we recommend that the Congress and all other interested groups carefully examine the concept of earnings sharing and, in particular, the illustrative earnings-sharing plan developed for the council.

The council unanimously recommends repeal of all but one of the few, minor gender-based distinctions remaining in the social security law. (The exception is a provision which is now being phased out and which has been found to be valid by the Supreme Court.)

A narrow majority of the council also recommends that serious consideration be given in the future to proposals to permit parents to drop from the averaging period one or more years spent caring for children.

## Chapter 5. Social Security and Minorities

It is important that laws drafted without intent to discriminate not do so. Accordingly the council has examined the allegation that social security is unfair to members of minority groups and finds that it is not valid. The shorter life expectancy of minority persons does mean that they are less likely than others to get retirement benefits. However, minorities are more likely than others to qualify for disability and survivors' benefits. Further, because minorities continue to be paid less than whites and to experience more unemployment, they tend to benefit from the fact that social security benefits replace more of the earnings of low-wage workers than of higher-paid workers. The consequences of such labor market discrimination are deplorable and continue to demand the attention of the nation. However, it would be neither appropriate nor desirable for the social security system to be used as a device to remedy this discrimination.

The impact of changes in social security on minorities should receive explicit attention whenever proposals for such changes are under consideration. The council is making a series of recommendations in this report which, while applicable to all beneficiaries, it believes will be of particular assistance to minority group members. But it opposes introducing into social security explicit differentiation among groups.

The council recommends that the Social Security Administration give high priority to research and analysis concerning the extent to which minority groups benefit from the social security programs and that, to facilitate such research and analysis, the Social Security Administration be given the authority to collect the necessary data concerning the racial and ethnic characteristics of beneficiaries and workers.

## Chapter 6. Disability Insurance

**Family maximum on disability benefits.** A majority of the council recommends that family benefits under disability insurance should be limited to a greater extent than are family benefits under old-age and survivors' insurance. A narrow majority of the council favors a limit no more stringent than a maximum of 90 percent of the worker's highest five consecutive years of wage-indexed earnings. Each family's limit would increase annually as wages increase.

The council majority recommends that a similar limit be applied to each family's receipt of all federal disability benefits taken together.

**Definition of disability.** A majority of the council recommends that the definition of disability for benefits under title II be liberalized for older workers by applying to people aged 55 through 59 the same criteria that are now applicable to people aged 60 through 64.

A majority of the council also recommends the development of a more liberal definition of disability for use in determining eligibility for SSI [supplemental security income] disability benefits under title XVI than is used for determining eligibility for social security disability insurance benefits under title II.

**Work incentives.** The council unanimously recommends enactment of several proposals that would encourage disabled people with residual work capacity to return to work by allowing them to deduct work-related expenses from the maximum earnings limit; by permitting automatic reinstatement of benefits if they have been terminated because of return to work; by extending the trial work period to widow(er)s, and by extending eligibility for medicare and medicaid. The council also recommends that SSA be given the funds and authority to experiment with other work incentive proposals.

**Attendant care.** The council recommends greater efforts to provide attendant care for the disabled, but believes attendant care should be viewed as a social service rather than as an entitlement under the DI or SSI programs.

**Private rehabilitation services.** The council recommends that HEW or another appropriate federal agency be given authority and funds to undertake a comprehensive review of federally financed rehabilitation programs together with an assessment of the contribution that other rehabilitation programs could make.

**Periodic review.** The council recommends stepped-up review of the continuing eligibility of disabled beneficiaries who have impairments that may improve. SSA should be assured of funds and staff to do this, if necessary by legislation.

**Disabled spouses benefits.** The council recommends that unreduced benefits should be provided for disabled widows and widowers regardless of age. Also, spouses' benefits should be extended to disabled spouses of disabled or retired workers.

**Waiting period.** A narrow majority of the council recommends a reduction in the waiting period for disability benefits from five months to three months.

**Recency-of-work requirement.** The council considered favorably, but does not recommend at this time, a proposal to relax the recency-of-work requirement for disability benefits. The proposal is meritorious, but would require a greater commitment of resources than the council is now willing to recommend.

## Chapter 7. Coverage

**Principle of universal coverage.** The council finds that our nation's income security goals can be achieved fully and equitably only if all employment is covered by social security.

**Mandatory coverage of government and nonprofit workers.** A majority of the council recommends that social security coverage be extended to federal employees either through mandatory coverage for new hires or through a transfer of credit plan. The council also recommends that newly hired state and local employees and newly hired employees of nonprofit organizations be mandatorily covered by social security. The council believes and intends that the combined protection of social security and supplemental plans for employees of federal, state, and local governments and of the nonprofit sector generally will at least equal present coverage. It opposes the merger of any existing staff pension fund with the social security trust fund.

**Interim steps.** Until such time as all workers are covered by social security, the council recommends as interim steps that:

- A plan be instituted to coordinate benefits for those who have earnings under social security and earnings from employment not covered by social security.
- Termination of agreements providing coverage for state and local workers not be permitted. (If this is not adopted, terminations should be permitted only after a vote of affected employees.)
- The divided retirement system procedure be made available to all states.

**Social security tax payments.** The council recommends that the payment of an employee's social security tax (FICA) by an employer should be taxed and credited as wages for social security purposes except in the case of domestic employment.

**Coverage of tips.** The council recommends that emloyers be required to pay employer social security taxes on the full amount of tips received by their employees.

**Coverage of farm workers.** The council recommends that the earnings of farm workers be taxed and credited under social security from the first dollar of earnings if the farm operator has expenditures of $2,500 annually for farm labor; the farm operator should be considered to be the employer of workers furnished by a crew leader.

## Chapter 8. Retirement Policy and Other Cash Benefit Issues

**Retirement policy.** A narrow majority of the council believes serious consideration should be given to enacting in the near future an increase in the normal retirement age to become effective after the turn of the century. The council majority recommends that the earnings test for those under age 65 be made the same as for those 65 and older, but that the earnings test not be otherwise liberalized. The council majority recommends that there be no change in the provisions allowing retirement before age 65, but recommends consideration of a program of special long-term unemployment benefits for those who are approaching the normal retirement age, but are unable to find a job.

**Long-term beneficiaries.** The council is concerned about the special needs and difficulties of people who have been getting social security benefits for many years; it recommends that these problems be dealt with through greater coordination among various programs including SSI, social services, medicare, and medicaid. The council considered but is not recommending a proposal for a one-time 10-percent benefit increase, over and above cost-of-living increases, at age 85.

**Administration's 1980 OASI proposals.** In January 1979, in a supplement to the State of the Union message, the President asked the advisory council to examine several Administration proposals to modify certain social security benefit provisions. The following recommendations deal with the regular minimum benefit, the lump-sum death benefit, students' benefits, benefits for mothers of young children, and currently insured status.

> **Regular minimum benefit:** A narrow majority of the council recommends the continuation of the provision of present law that will gradually phase out the regular social security minimum benefit.
>
> **The lump-sum death benefit:** A narrow majority of the council recommends that the lump-sum death payment under social security be retained and that the ceiling on the amount paid be increased to three times the primary insurance amount (PIA), but no more than $500.
>
> **Social security students' benefits:** The council majority recommends the continuation of the social security benefits now paid to students aged 18 through 21 who are the children of retired, deceased, or disabled workers.
>
> **Insured status requirements:** The council recommends no change at this time in the currently insured requirements for OASI benefits.
>
> **Termination of young parents' benefits:** A majority of the council recommends that benefits for the young parent caring for a child beneficiary continue until the child is at least age 18, as under present law, rather than age 16, as has been proposed.

**Program administration.** The council recommends that SSA pursue further efforts to improve the quality and clarity of the notices sent to beneficiaries concerning awards, changes, and denials.

The council recommends that those provisions of the House-passed disability bill that relate to disability determinations be considered minimum steps toward providing more efficient, speedy, just, and humane service and that direct federal administration of the entire disability insurance program be seriously considered.

The council supports efforts by the Social Security Administration to increase public participation in the development of SSA's policy and procedures, provide greater protection of the rights of applicants and beneficiaries, and improve service to non-English-speaking minorities. The council recommends that SSA establish ongoing panels as a means of improving the communications between SSA and the public.

The council recommends that SSA increase its efforts to

## Membership of the 1979 Advisory Council on Social Security

Henry J. Aaron, Chairman;
Senior Fellow, Brookings Institution.
Replaced Stanford G. Ross, who resigned to become Commissioner of Social Security.

Gardner Ackley,
Professor of Political Economy,
University of Michigan.

Robert M. Ball,
Senior Scholar, Institute of Medicine, National Academy of Sciences.

Eveline M. Burns,
Professor Emeritus of Social Work,
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Grace Montanez Davis,
Deputy Mayor,
City of Los Angeles.

Mary C. Falvey,
Senior Vice President and Director,
Blyth Eastman Dillon & Co., Inc.
Replaced Jane Cahill Pfeiffer.

Melvin A. Glasser,
Director, Social Security Department,
United Auto Workers International Union.

Velma M. Hill,
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John Wilson Porter,
President, Eastern Michigan University.

Bert Seidman,
Director, Department of Social Security,
American Federation of Labor and Congress of Industrial Organizations.

J.W. Van Gorkom,
Chairman of the Board, Trans Union Corp.

administer its programs in a way that reflects awareness of and sensitivity to the special circumstances of minority groups.

The council recommends that increased emphasis be placed on the responsiveness of SSI program administration to the special needs and vulnerabilities of the aged, blind, and disabled.

The council endorses efforts to inform people who are about to enter the work force about the value of social security protection and their obligations as social security taxpayers. The council recommends that such efforts be increased; it also recommends legislation to allow SSA to resume informing those reaching age 65 about social security benefits to which they are potentially entitled.

### Chapter 9. Private Pensions and SSI

Because social security is but one part of a complex set of public and private approaches to income maintenance, the council recommends that serious consideration be given to improving the private pension system. It also recommends a number of improvements in the supplemental security income (SSI) program.

The council majority recommends that total benefits for all SSI recipients should be brought up to the poverty line as rapidly as resources allow through the combined effects of SSI, state SSI supplements, food stamps, and other income sources. As an interim measure, the council recommends that federal matching funds be offered to states that raise their supplementary payment levels to the poverty line.

The council majority recommends that SSI households eligible for food stamps be paid the value of their food stamp allotment in cash.

The council unanimously recommends that SSI resource limits be updated and automatically adjusted each year for changes in the cost of living.

The council majority recommends eliminating the value of household goods and personal effects, including value of automobiles, in determining SSI eligibility.

The council unanimously recommends that the present law disregard of $20 a month of unearned income be updated to present values (about $30) and kept up to date with inflation automatically in the future.

The council recommends that serious consideration be given to:

- Providing benefits to needy spouses beginning at age 62 and to minor dependent children of SSI recipients.
- Liberalizing the one-third reduction in benefits to recipients who live in the household of another.

### Chapter 10. Medicare

The council recommends that the mandate of future advisory councils be limited to the social security cash benefits program and that a separate advisory council be established periodically to review the medicare and medicaid programs.