Actuarial Cost Estimates For OASDI and HI and for Various Possible Changes in OASDI

This article, Appendix K to the **Report of the National Commission on Social Security Reform**,[1] presents actuarial cost estimates for possible revisions to the Old-Age, Survivors, and Disability Insurance (OASDI) and Health Insurance (HI) programs. These projected alternatives cover major options for resolving both the short-range and long-range financing problems of the OASDI program. Long-range costs are expressed as percentages of taxable payroll. (Pages 1 through 55 of Appendix K are reprinted here. Space constraints do not permit the inclusion of the last 34 pages, which are tables of historical data for the OASDI and HI programs. Tables containing much the same information can be found in annual OASDI and HI Trustees Reports and in the **1981 Annual Statistical Supplement** to the **Social Security Bulletin.**) —Editor.

Introduction

This background book was originally prepared for the meeting of the National Commission on Social Security Reform on November 11-13, 1982. The present version has been revised to reflect certain additional information that became available after the meeting and to correct a few minor errors.

It presents actuarial cost estimates for various possible changes in the Old-Age, Survivors, and Disability Insurance program. The changes presented are intended to represent an objective selection which covers all of the major options open for resolving the short-range and long-range financing problems of the OASDI program. Quite naturally, there are many permutations and combinations of the several options—varying by effective dates, benefit percentages, normal retirement ages, etc. However, it is believed that the changes presented are reasonably representative. The effect of different proposals than these can usually be seen from the data presented here.

Also presented are a number of tables which show the past experience of the OASDI and Hospital Insurance programs and their estimated future experience. Attention is particularly directed to tables 5 and 10, which address the short-range problem, and to tables 6, 7, and 8, which address the long-range problem.

The various cost estimates presented were prepared in most cases by the Office of the Actuary, Social Security Administration.

The long-range cost effects of the various possible changes considered are expressed as percentages of taxable payroll—which makes them comparable with payroll tax rates. For example, a long-term cost of +0.38 percent of taxable payroll means that, if this were to be financed by a level tax rate in all future years, then a combined employer-employee rate of 0.38 percent would be required. This is done rather than expressing them in terms of dollars, because of the difficulty of expressing costs over long future periods of years in such terms when assumptions of continuously rising wages and prices are involved. The taxable payroll in 1982 is about $1.4 trillion (so that 1 percent of payroll would be $14 billion).

Notes:

(1) Increased cost is indicated by a plus (+) sign.

(2) Cost reduction is indicated by a minus (−) sign.

(3) All estimates are on the basis of calendar years.

(4) All estimates are for the OASDI Trust Funds only, unless otherwise indicated.

(5) A "0" means that the cost effect for the year is zero, while a ".0" means that it is less than $50 million.

(6) References to "long term" mean the years 1982–2056.

(7) Long-term estimates are on the basis of the Alternative II-B assumptions of the 1982 OASDI Trustees Report.

(8) When all of the short-term cost figures are zero, no short-term cost table is presented.

[1] Copies of the report may be purchased through the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402 (GPO Stock No. 040-00-00463-7, $7.50).

Summary of Section A: Coverage

Option No.	Description	OASDI cost 1983–89 (billions) II-B	III	Long-term cost
A-1	Cover all Federal, State and local, and nonprofit employees.	– $110	– $117	– 0.53%
A-2	Cover all Federal and nonprofit employees.	– 62	– 68	– .31
A-3	Cover all nonprofit employees and all *new* Federal employees.	– 19	– 21	– .30
A-4	Cover all *new* State and local employees.	– 13	– 14	– .24
A-5	Prohibit withdrawal from coverage by State and local governments and by nonprofit organizations by not permitting notices to be filed after 1983.	+ 50	+ 53	NA
A-6	Prohibit withdrawal from coverage by State and local governments and by nonprofit organizations by providing that any notice of termination filed after 9/30/82 is invalid.	NA	NA	NA
A-7	Eliminate windfall benefits for persons with pensions from noncovered employment.	(1)	(1)	– .09
A-8	Cover all nonprofit employees, all *new* Federal employees, and all present Federal employees with less than 5 years of service.	– 26	– 29	– .31

NA = not available.
[1] Less than $500 million savings.
Note: Long-term costs are presented as a percentage of taxable payroll, for OASDI only.

A. Coverage

Present law. OASDI coverage now applies to almost all types of employment. The principal types of employment not covered are the following: (1) employees of nonprofit organizations which have not elected such coverage (about 15 percent of such employees), (2) permanent civilian employees of the Federal Government, and (3) employees of State and local governments which have not elected coverage (about 30 percent of such employees).

Options:

A-1.—Extend coverage to all Federal employees, State and local employees, and employees of nonprofit organizations,[1] effective in 1984[2]

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983–89
II-B, OASDI	0	– 14.0	– 16.7	– 18.0	– 19.3	– 20.6	– 22.0	– 110.5
III, OASDI	0	– 14.2	– 17.0	– 18.7	– 20.5	– 22.4	– 24.4	– 117.2
II-B, HI	0	– 1.6	– 2.0	– 2.3	– 2.5	– 2.7	– 2.9	– 14.2
III, HI	0	– 1.6	– 2.0	– 2.4	– 2.6	– 2.8	– 3.1	– 14.5

25-year cost, OASDI: – .70% of taxable payroll
50-year cost, OASDI: – .64% of taxable payroll
Long-term cost, OASDI: – .53% of taxable payroll

25-year cost, HI: – .25% of taxable payroll

[1] Such organizations which have religious principles against any form of government insurance would be permitted to opt out on a permanent basis.
[2] If the effective date were later than 1984, the long-term cost effect would be about the same as shown. The short-term cost effects would be zero, of course, for years before the effective date and about the same as shown for the effective year and thereafter.

A-2.—Extend coverage to all Federal employees and all employees of nonprofit organizations,[1] effective in 1984[2]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-8.1	-9.2	-9.9	-10.7	-11.4	-12.2	-61.5
III, OASDI	0	-8.4	-9.8	-10.7	-11.8	-12.9	-14.1	-67.6
II-B, HI	0	-.2	-.3	-.3	-.3	-.3	-.4	-1.8
III, HI	0	-.2	-.3	-.3	-.3	-.4	-.4	-1.9

25-year cost, OASDI: −.40% of taxable payroll
50-year cost, OASDI: −.37% of taxable payroll
Long-term cost, OASDI: −.31% of taxable payroll

25-year cost, HI: −.02% of taxable payroll

[1] Such organizations which have religious principles against any form of government insurance would be permitted to opt out on a permanent basis.
[2] If the effective date were later than 1984, the long-term cost effect would be about the same as shown. The short-term cost effects would be zero, of course, for years before the effective date and about the same as shown for the effective year and thereafter.

A-3.—Extend coverage to all employees of nonprofit organizations[1] and all new Federal employees, effective in 1984[2]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
III-B, OASDI	0	-1.2	-2.1	-2.7	-3.4	-4.2	-5.0	-18.6
III, OASDI	0	-1.2	-2.2	-2.9	-3.7	-4.7	-5.8	-20.6
II-B, HI	0	-.2	-.3	-.3	-.3	-.3	-.4	-1.8
III, HI	0	-.2	-.3	-.3	-.3	-.4	-.4	-1.9

25-year cost, OASDI: −.25% of taxable payroll
50-year cost, OASDI: −.34% of taxable payroll
Long-term cost, OASDI: −.30% of taxable payroll

25-year cost, HI: −.02% of taxable payroll

[1] Such organizations which have religious principles against any form of government insurance would be permitted to opt out on a permanent basis.
[2] If the effective date were later than 1984, the long-term cost effect would be about the same as shown. The short-term cost effects would be zero, of course, for years before the effective date and about the same as shown for the effective year and thereafter.

A-4.—Extend coverage to all *new* State and local employees, effective 1984[1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-0.3	-1.1	-1.8	-2.6	-3.3	-4.2	-13.3
III, OASDI	0	-.3	-1.0	-1.8	-2.6	-3.5	-4.5	-13.7
II-B, HI	0	-.1	-.2	-.5	-.7	-.9	-1.1	-3.5
III, HI	0	-.1	-.2	-.5	-.7	-.9	-1.1	-3.5

25-year cost, OASDI: −.23% of taxable payroll
50-year cost, OASDI: −.28% of taxable payroll
Long-term cost, OASDI: −.24% of taxable payroll

25-year cost, HI: −.23% of taxable payroll

[1] If the effective date were later than 1984, the long-term cost effect would be about the same as shown. The short-term cost effects would be zero, of course, for years before the effective date and about the same as shown for the effective year and thereafter.

A-5.—Prohibit opting out of coverage of employees of State and local governments and employees of nonprofit organizations by not permitting withdrawal notices to be filed after 1983

Estimate	Cost (in billions of dollars) [1]							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	+0.5						
III, OASDI	0	+.5						

[1] It is estimated that such a provision would result in *increased* costs over the short run, because the actuarial cost estimates assume that many more entries would feel constrained to withdraw at once, before they would no longer have the opportunity to do so. Long-term cost data are not available, due to the diverse effects possible.

A-6.—Prohibit opting out of coverage of employees of State and local governments and employees of nonprofit organizations by providing that any notice of termination filed after September 30, 1982, is invalid [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89

[1] Cost estimates for the savings involved are not available, because the actuarial cost estimates for the present program assume that *no* withdrawals will occur. Obviously, this proposal will have significant cost savings if it is enacted.

A-7.—Eliminate "windfall" old-age and disability benefits for persons with pensions from noncovered employment, effective for those becoming first eligible after 1983 (in the absence of changes which would result in universal coverage being applicable)

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−0.0	−0.0	−0.0	−0.0	−0.1	−0.1	−0.2
III	0	−.0	−.0	−.0	−.0	−.1	−.1	−.2

25-year cost: −.00% of taxable payroll
50-year cost: −.03% of taxable payroll
Long-term cost: −.09% of taxable payroll

A-8.—Extend coverage to all employees of nonprofit organizations,[1] to all new Federal employees, and to all present Federal employees with less than 5 years of service, as of January 1, 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	2.4	3.2	4.0	4.7	5.5	6.3	26.2
III	0	2.5	3.5	4.3	5.3	6.2	7.3	29.0

25-year cost: −.25% of taxable payroll
50-year cost: −.36% of taxable payroll
Long-term cost: −.31% of taxable payroll

[1] Such organizations which have religious principles against any form of government insurance would be permitted to opt out on a permanent basis.

Summary of Section B: Tax Rates

Option No.	Description	OASDI cost 1983-89 (billions) II-B	OASDI cost 1983-89 (billions) III	Long-term cost
B-1	Accelerate the 1990 OASDI tax to 1984.	−$133	−$135	−0.09%
B-2	Accelerate the 1985 OASDI tax to 1984.	−10	−10	−.01
B-3	Accelerate the 1985 and 1986 OASDI-HI tax rates to 1984.	−19	−18	−.02
B-4	Increase the OASDI-HI tax rate for self-employed persons to the combined employer-employee rate.	−18	−17	−.19
B-5	Reduce the 1990 OASDI tax rate from 6.2% to 6.0% for 1990-2009.	0	0	+.11
B-6	Move the 1985 OASDI tax rate to 1984; for 1985-87, such rate would be mid-way between the 1985 and 1990 tax rates in present law; for 1988 and after, such rate would be the 1990 rate in present law.	−86	−89	−.05
B-7	Increase the OASDI tax rate on employers and employees each by 1% in 2020.	0	0	−.99
B-8	Increase the OASDI tax rate on employers and employees each by 1.25% in 2030.	0	0	−.90
B-9	Remove the taxable earnings base for employers only.	−41	−42	−.56
B-10	Set a limit of 25% of total compensation as to the amount of fringe benefits not subject to payroll tax. Tax-exempt fringes in excess of such limit would be subject to OASDI-HI tax on only the employer and would not be counted as creditable wages for benefit purposes.	NA	NA	−.73
B-11	Maintain a constant OASDI tax rate on total compensation, effective 1990.	0	0	−1.56
B-12	Make wages deferred under section 401(k) (salary reduction plans) be subject to OASDI-HI tax.	NA	NA	NA

NA = not available.

B. Tax Rates

Present law. See table 2 for schedule of OASDI-HI tax rates under present law.

Options:

B-1.—Accelerate the 1990 OASDI tax rate to 1984[1]

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−25.1	−18.7	−19.7	−21.3	−23.1	−24.9	−132.8
III	0	−24.3	−18.4	−19.8	−21.8	−24.1	−26.4	−134.8

25-year cost: −.26% of taxable payroll
50-year cost: −.13% of taxable payroll
Long-term cost: −.09% of taxable payroll

[1] In conjunction with this proposal, a portion of the OASDI-HI tax could be made deductible for income-tax purposes or a tax credit provided—the portion would be such that the reduction in personal income taxes would equal the additional OASDI-HI taxes paid by workers and employers. Thus, there would be no effect on the overall Federal budget deficit.

B-2.—Accelerate the 1985 OASDI tax rate to 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983–89
II-B	0	−9.4	−0.6	0	0	0	0	−10.0
III	0	−9.1	−.6	0	0	0	0	−9.7

25-year cost: −.02% of taxable payroll
50-year cost: −.01% of taxable payroll
Long-term cost: −.01% of taxable payroll

B-3.—Accelerate the 1985 and 1986 OASDI-HI tax rates to 1984 [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983–89
II-B, OASDI	0	−9.4	−0.6	0	0	0	0	−10.0
III, OASDI	0	−9.1	−.6	0	0	0	0	−9.7
II-B, HI	0	−4.9	−3.8	−.2	0	0	0	−8.8
III, HI	0	−4.7	−3.8	−.2	0	0	0	−8.7

25-year cost, OASDI: −.02% of taxable payroll
50-year cost, OASDI: −.01% of taxable payroll
Long-term cost, OASDI: −.01% of taxable payroll

25-year cost, HI: −.02% of taxable payroll

[1] The figures shown assume that the taxes resulting from the 1986 increase in the HI portion of the tax rate would go into the HI Trust Fund. It would be possible to keep the HI tax rate under the proposal at the same level in 1984–85 as under present law and to reallocate the increase in the OASDI-HI rate entirely to the OASDI Trust Funds; then, the cost effect for the OASDI Trust Funds would be approximately the sum of the figures shown for OASDI and HI.

B-4.—Increase the OASDI-HI tax rate for self-employed persons to the combined employer-employee rate, effective in 1984 [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983–89
II-B, OASDI	0	−0.9	−2.8	−3.1	−3.4	−3.6	−3.8	−17.5
III, OASDI	0	−.8	−2.6	−3.0	−3.3	−3.6	−3.9	−17.3
II-B, HI	0	−.4	−1.3	−1.5	−1.7	−1.8	−2.0	−8.7
III, HI	0	−.4	−1.2	−1.5	−1.7	−1.8	−2.0	−8.6

25-year cost, OASDI: −.15% of taxable payroll
50-year cost, OASDI: −.17% of taxable payroll
Long-term cost, OASDI: −.19% of taxable payroll

25-year cost, HI: −.14% of taxable payroll

[1] In conjunction with this proposal, a refundable tax credit for the self-employed equal to 25 percent of the self-employment tax could be provided. Alternatively, 50 percent of the payroll tax paid by the self-employed could be made tax deductible as a business expense.

B-5.—Reduce the 1990 OASDI tax rate from 6.2 percent on the employer and employee, each, to 6.0 percent for 1990-2009. Return to the 6.2 percent rate in 2010.

25-year cost:	+.27% of taxable payroll
50-year cost:	+.16% of taxable payroll
Long-term cost:	+.11% of taxable payroll

B-6.—Move the 1985 OASDI tax rate to 1984; increase the 1985-87 OASDI tax rate to mid-way between the 1985 and 1990 tax rates in present law; and for 1988 and after, increase the OASDI tax rate to the tax rate for 1990 in present law

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-9.4	-9.1	-9.8	-10.7	-22.5	-24.9	-86.4
III	0	-9.1	-9.0	-9.9	-10.9	-23.4	-26.4	-88.7

25-year cost:	-.16% of taxable payroll
50-year cost:	-.08% of taxable payroll
Long-term cost:	-.05% of taxable payroll

B-7.—Increase OASDI tax by 1 percent on employers and employees each, effective in 2020

Long-term cost: -0.99% of taxable payroll

B-8.—Increase OASDI tax rate by 1.25 percent on employers and employees each, effective in 2030

Long-term cost: -0.90% of taxable payroll

B-9.—Remove the taxable earnings base for employers only, effective in 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	−5.9	−6.7	−6.8	−7.0	−7.2	−7.3	−40.9
III, OASDI	0	−5.8	−6.7	−6.8	−7.2	−7.5	−7.6	−41.6
II-B, HI	0	−1.5	−1.6	−1.8	−1.8	−1.9	−1.9	−10.5
III, HI	0	−1.5	−1.6	−1.8	−1.8	−2.0	−2.0	−10.7

25-year cost, OASDI: − .43% of taxable payroll
50-year cost, OASDI: − .50% of taxable payroll
Long-term cost, OASDI: − .56% of taxable payroll

B-10.—Set a limit of 25 percent of total compensation as the amount of nontaxable fringe-benefit compensation that can be provided without being subject to the payroll tax. Tax-exempt fringes in excess of the 25 percent limit would become subject to OASDI-HI tax only for the employer and would *not* be counted as creditable wages for benefit purposes, effective in 1985.

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89

25-year cost, OASDI: − .07% of taxable payroll
50-year cost, OASDI: − .32% of taxable payroll
Long-term cost, OASDI: − .73% of taxable payroll

B-11.—Maintain, in effect, constant OASDI tax rate on total compensation, effective in 1990. If the "cash earnings plus taxable fringe benefits" portion of total compensation decreases, the tax rate on covered wages would increase so as to maintain a constant tax rate on total compensation, using 1990 as the base year.

25-year cost: − .25% of taxable payroll
50-year cost: − .87% of taxable payroll
Long-term cost: − 1.56% of taxable payroll

B-12.—Make wages deferred under section 401(k) of the Internal Revenue Code (salary reduction plans) be subject to the OASDI-HI tax

Long-term cost: Cannot be estimated, because no experience data are available. However, the loss of revenues to the OASDI and HI Trust Funds, without this change, may become substantial in future years.

Summary of Section C: Alternative Sources of Revenues

Option No.	Description	OASDI cost 1983-89 (billions)		Long-term cost
		II-B	III	
C-1	Reallocate 50% of HI tax rate to the OASDI Trust Funds.	-$174	-$177	-1.42%
C-2	Same as C-1, except that effective date is 1990.	0	0	-1.30
C-3	Allow OASDI Trust Funds to borrow from General Fund whenever the combined fund ratio is below 15 %.	[1] 75	[1] 201	NA
C-4	Impose a new inheritance tax earmarked for OASI Trust Fund.	-22	-22	NA
C-5	Impose a surtax on gasoline, earmarked for OASI Trust Fund.	-23	-23	-.02
C-6	Impose a 5% surcharge on individual income tax, earmarked for OASI Trust Fund.	-134	-134	-.09
C-7	Increase excise tax on alcohol and tobacco, earmarked for DI or HI Trust Funds.	-14	-14	-.01
C-8	Credit OASDI Trust Funds with total unreimbursed cost for military-service wage credits based on service before 1957.	-3	NA	.00
C-9	Credit OASDI Trust Funds with excess of *past* benefit payments over past reimbursements for military-service wage credits based on service before 1957.	(2)	(2)	.00
C-10	Pay OASDI taxes for current military-service gratuitous wage credits.	-2	-2	-.01
C-11	Credit OASDI Trust Funds for OASDI checks that have gone uncashed for 1 or more years, effective in 1983.	-1	-1	.00
C-12	Provide that OASDI administrative expenses be paid from general revenues.	-19	-19	-.15
C-13	Provide a general revenue contribution, in a given month, equal to excess of the unemployment rate over 6%, times total OASDI taxes.	-16	-30	-.05

NA = not available.
[1] Amount borrowed from General Fund in period.
[2] Less than $500 million.

C. Alternative Sources of Revenues

Present law. Income to the OASDI and HI Trust Funds comes from the payroll tax which is paid by employers, employees, and the self-employed. (In addition, there are certain payments to the trust funds from the General Fund of the Treasury to cover the cost of certain transitional benefits for closed groups of persons and military-service wage credits.)

Options:

C-1.—Reallocate 50 percent of the employer-employee HI tax rates to the OASDI Trust Funds, and make up this loss to the HI Trust Fund by payments from the General Fund of the Treasury, effective in 1984 (with corresponding treatment for the self-employed rate)

Estimate	OASDI cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-20.4	-24.4	-28.5	-30.9	-33.5	-36.1	-173.8
III	0	-19.7	-24.1	-28.6	-31.7	-34.9	-38.3	-177.3

25-year cost: -1.33% of taxable payroll
50-year cost: -1.39% of taxable payroll
Long-term cost: -1.42% of taxable payroll

C-2.—Same as option C-1, except effective in 1990

25-year cost:	− .99% of taxable payroll
50-year cost:	− 1.23% of taxable payroll
Long-term cost:	− 1.30% of taxable payroll

C-3.—Allow the OASDI Trust Funds to borrow from the General Fund of the Treasury whenever their combined balance (assuming interfund borrowing between them) is lower than 15 percent of the next year's outgo, effective in 1983. The amounts would be paid back to the General Fund, with interest, when the combined OASDI Trust Fund ratios reach 50 percent. If necessary, the OASDI tax rate would be increased to assure pay-back.

Estimate	Amount borrowed from General Fund in year (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	22	15	7	8	8	8	7	75
III	26	26	20	25	30	34	40	201

[1] Interest that would be accumulating on the amounts borrowed is not shown.

C-4.—Impose a new inheritance tax, which would apply only if there is no surviving spouse. It would exclude the first $100,000 in the estate. The next $100,000 would be taxed at a 10-percent rate, and the third $100,000 would be taxed at a 15-percent rate, effective for 1985. After 1989, the thresholds for taxation would be indexed by the CPI increases. The proceeds of the tax would be earmarked for the OASI Trust Fund.

Estimate [1]	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	0	0	− 3.6	− 3.9	− 4.3	− 4.7	− 5.1	− 21.6

Long-term cost: Cannot be determined

[1] Only one estimate is available. It is based on data provided by the Joint Committee on Taxation and the Congressional Budget Office.

C-5.—Impose a surcharge of 3 cents a gallon on gasoline, which would be earmarked for the OASI Trust Fund, effective for 1983-89

Estimate [1]	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	− 3.3	− 3.3	− 3.3	− 3.3	− 3.3	− 3.3	− 3.3	− 23.1

Long-term cost: − .02% of taxable payroll

[1] Only one estimate is available. It is based on data provided by the Joint Committee on Taxation and the Congressional Budget Office.

C-6.—Impose a 5 percent surcharge on individual income taxes in 1983-89, the proceeds from which would be earmarked for the OASI Trust Fund

Estimate [1]	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	-14.9	-15.8	-17.3	-18.8	-20.6	-22.4	-24.4	-134.2
Long-term cost: -.09% of taxable payroll								

[1] Only one estimate is available. It is based on data provided by the Joint Committee on Taxation and the Congressional Budget Office.

C-7.—Impose increased excise taxes on alcohol and tobacco in 1983-89—increases of 25 percent over present rates. The proceeds would be earmarked for either the DI or HI Trust Fund.

Estimate [1]	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-14.0
Long-term cost: -.01% of taxable payroll								

[1] Only one estimate is available. Any such estimate is subject to a wide variation, because it depends greatly on future conditions.

C-8.—Credit to the OASDI Trust Funds, as a lump sum, the present value of the additional cost of OASDI benefits for those military-service wage credits based on service before 1957, effective in 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-5.8	+0.6	+0.5	+0.5	+0.5	+0.5	+0.5	-2.6
Long-term cost: Negligible								

C-9.—Credit to the OASDI Trust Funds, as a lump sum, the excess of past benefit payments over past reimbursement payments (including interest) for the cost of additional OASDI benefits for those military-service wage credits based on service before 1957

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-0.9	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	-0.3
III	-.9	+.1	+.1	+.1	+.1	+.1	+.1	-.3
Long-term cost: Negligible								

C-10.—Pay OASDI taxes for current military-service gratuitous wage credits as the service is rendered, effective in 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.6
III	0	-.3	-.3	-.3	-.3	-.3	-.3	-1.6

Long-term cost: Negligible

C-11.—Credit to the OASDI Trust Funds the OASDI checks which have not been cashed for at least 1 year, effective in 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-0.3	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.5
III	-.3	-.0	-.0	-.0	-.0	-.0	-.0	-.5

Long-term cost: Negligible

C-12.—Provide that the administrative expenses of the OASDI program be paid from the General Fund of the Treasury

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-2.2	-2.3	-2.5	-2.6	-2.8	-2.9	-3.1	-18.5
III	-2.2	-2.3	-2.5	-2.7	-2.9	-3.1	-3.3	-18.9

25-year cost: -.13% of taxable payroll
50-year cost: -.14% of taxable payroll
Long-term cost: -.15% of taxable payroll

C-13.—Provide a payment from the General Fund of the Treasury equal, for each month, to (a) the excess (if any) of the unemployment rate over 6 percent, multiplied by (b) the total OASDI tax receipts, effective in 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	-2.8	-3.5	-3.2	-2.8	-2.2	-1.5	-16.1
III	0	-5.0	-5.7	-5.4	-5.2	-4.7	-4.1	-30.1

25-year cost: -.07% of taxable payroll
50-year cost: -.06% of taxable payroll
Long-term cost: -.05% of taxable payroll

Summary of Section D: Cost-of-Living Adjustments

Option No.	Description	OASDI cost 1983-89 (billions)		Long-term cost
		II-B	III	
D-1	Delay COLA by 1 month per year for 3 years.	−$20	−$31	−0.14%
D-2	Delay the effective date for the cost-of-living adjustment for 3 months.	−23	−35	−.14
D-3	Provide for no COLA for 1983. Resume present procedure thereafter.	−94	−119	−.13
D-4	Provide guaranteed COLA of 4% for 1983 and 1984; thereafter, the COLA would equal the annual increase in wages, minus 1 1/2 percentage points.	−100	−180	−.16
D-5	Provide guaranteed benefit increase of 4% or $14 (whichever is higher) for 1983 and 1984; thereafter, the COLA would equal the annual increase in wages, minus 1 1/2 percentage points.	−96	−176	−.15
D-6	Provide COLA's equal to 75% of what the benefit increases would be under present law.	−88	−128	−1.45
D-7	Provide COLA's equal to increase in the Consumer Price Index, minus 2 percentage points.	−103	−113	−2.58
D-8	Provide COLA equal to present-law increase, minus 2 percentage points for 1983 and 1984; thereafter present-law procedure would resume.	−66	−72	−.07
D-9	Same as D-8 for 1983 and 1984; thereafter, COLA's would be equal to the annual increase in wages, minus 1 1/2 percentage points.	−75	−97	−.11
D-10	Provide COLA's equal to annual percentage increase in wages, minus "X" percentage points. The value of "X" could be 1, 1 1/2, or 2.	(1)	(1)	(1)
D-11	Provide COLA's based on lesser of increase in wages or prices, with a "catch-up" provision.	−1	−60	−.06
D-12	Provide COLA's based on lesser of increase in wages or prices, with *no* "catch-up" provision.	−4	−66	−.43

[1] Various alternatives are considered (see subsequent pages for details).

D. Cost-of-Living Adjustments for Benefits in Payment Status

Present law. Benefits are increased each year when the annual increase in the Consumer Price Index (CPI) is 3 percent or more. The amount of the benefit increase is equal to the increase in the CPI from the first quarter of one year to the first quarter of the next year. The benefit increase is effective for June, and is first reflected in the check sent in early July.

Options:

D-1.—Delay the cost-of-living adjustment by 1 month per year for 3 years, effective in 1983, so that, in 1985 and after, the benefit increase would be effective at the beginning of the fiscal year

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	−1.0	−2.3	−3.4	−3.3	−3.3	−3.4	−3.5	−20.2
III	−1.2	−2.9	−4.8	−5.1	−5.5	−5.8	−6.1	−31.4

25-year cost: −.12% of taxable payroll
50-year cost: −.13% of taxable payroll
Long-term cost: −.14% of taxable payroll

D-2.—Delay the effective date for the cost-of-living adjustment for 3 months, effective in 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-3.0	-3.4	-3.4	-3.3	-3.3	-3.4	-3.5	-23.3
III	-3.6	-4.4	-4.8	-5.1	-5.5	-5.8	-6.1	-35.3

25-year cost: -.12% of taxable payroll
50-year cost: -.13% of taxable payroll
Long-term cost: -.14% of taxable payroll

D-3.—Provide no cost-of-living adjustment for 1983.[1] Resume present-law benefit increases in 1984.

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-6.2	-12.9	-13.8	-14.5	-15.0	-15.4	-15.7	-93.5
III	-7.3	-15.4	-16.8	-18.1	-19.3	-20.5	-21.5	-118.9

Long-term cost: -.13% of taxable payroll

[1] A parallel change could be made in the indexing of the bend points in the PIA benefit formula (which is based on wage changes). This would be done so as to prevent "notch" situations from occurring as between persons first becoming eligible in the year of the revised benefit increase and those first becoming eligible in the next year. Such a change would have relatively little cost effect in the short run, but would have a significant effect over the long run.

D-4.—Provide a guaranteed benefit increase of 4 percent for 1983 and 1984, regardless of the change in the CPI.[1] In 1985 and thereafter, the annual benefit increase would equal the annual percentage increase in wages, minus 1 1/2 percentage points.

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-2.9	-9.3	-14.0	-16.2	-18.1	-19.5	-20.4	-100.4
III	-4.0	-13.4	-22.1	-27.8	-32.8	-37.7	-42.3	-180.1

Long-term cost: -.16% of taxable payroll

[1] A parallel change could be made in the indexing of the bend points in the PIA benefit formula (which is based on wage changes). This would be done so as to prevent "notch" situations from occurring as between persons first becoming eligible in the year of the revised benefit increase and those first becoming eligible in the next year. Such a change would have relatively little cost effect in the short run, but would have a significant effect over the long run.

D-5.—Same as option D-4, except that the benefit increase in 1983-84 would not be less than that resulting from an increase of $14 in the PIA [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-2.7	-8.8	-13.3	-15.5	-17.4	-18.8	-19.7	-96.2
III	-3.8	-12.9	-21.4	-27.1	-32.1	-37.0	-41.5	-175.8

Long-term cost: -.15% of taxable payroll

[1] The $14 increase would not be applicable for very low PIA's, which instead would have a 10 percent increase be applicable.

D-6.—Provide benefit increases equal to 75 percent of what the benefit increases would be under present law (i.e., 75 percent of the CPI increase), effective in 1983 [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.6	-5.0	-8.7	-12.5	-16.3	-20.1	-24.0	-88.2
III	-1.8	-6.0	-11.2	-17.1	-23.6	-30.5	-38.0	-128.2

Long-term cost: -1.45% of taxable payroll

[1] A parallel change could be made in the indexing of the bend points in the PIA benefit formula (which is based on wage changes). This would be done so as to prevent "notch" situations from occurring as between persons first becoming eligible in the year of the revised benefit increase and those first becoming eligible in the next year. Such a change would have relatively little cost effect in the short run, but would have a significant effect over the long run.

D-7.—Provide benefit increases equal to the increase in the CPI, minus 2 percentage points, effective in 1983 [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.7	-5.2	-9.3	-13.9	-18.9	-24.2	-30.0	-103.2
III	-1.7	-5.3	-9.6	-14.7	-20.5	-27.1	-34.4	-113.3

Long-term cost: -2.58% of taxable payroll

[1] A parallel change could be made in the indexing of the bend points in the PIA benefit formula (which is based on wage changes). This would be done so as to prevent "notch" situations from occurring as between persons first becoming eligible in the year of the revised benefit increase and those first becoming eligible in the next year. Such a change would have relatively little cost effect in the short run, but would have a significant effect over the long run.

D-8.—Same as option D-7, except effective only for 1983-84 [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.7	-5.2	-9.3	-11.8	-12.3	-12.7	-13.0	-66.1
III	-1.7	-5.3	-9.6	-12.5	-13.4	-14.3	-15.1	-72.0

Long-term cost: -.07% of taxable payroll

[1] A parallel change could be made in the indexing of the bend points in the PIA benefit formula (which is based on wage changes). This would be done so as to prevent "notch" situations from occurring as between persons first becoming eligible in the year of the revised benefit increase and those first becoming eligible in the next year. Such a change would have relatively little cost effect in the short run, but would have a significant effect over the long run.

D-9.—Same as option D-8, except that benefit increases after 1984 would be based on annual percentage increases in wages, minus 1 1/2 percentage points (instead of on annual CPI increases) [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-1.7	-5.2	-9.3	-12.5	-14.3	-15.6	-16.5	-75.2
III	-1.7	-5.3	-9.6	-14.0	-18.2	-22.2	-26.3	-97.3

Long-term cost: -.11% of taxable payroll

[1] A parallel change could be made in the indexing of the bend points in the PIA benefit formula (which is based on wage changes). This would be done so as to prevent "notch" situations from occurring as between persons first becoming eligible in the year of the revised benefit increase and those first becoming eligible in the next year. Such a change would have relatively little cost effect in the short run, but would have a significant effect over the long run.

D-10.—Provide benefit increases equal to the annual percentage increase in wages, minus "X" percentage points, beginning in 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	Based on X being 1 percent							
II-B	-1.1	-2.8	-3.8	-4.5	-4.8	-4.6	-3.9	-25.5
III	-2.6	-8.3	-13.9	-18.1	-21.3	-24.2	-26.8	-115.2
Long-term cost: +.68% of taxable payroll								
	Based on X being 1 1/2 percent							
II-B	-1.5	-4.1	-6.1	-8.0	-9.6	-10.7	-11.5	-51.5
III	-3.0	-9.6	-16.3	-21.6	-26.2	-30.7	-35.1	-142.5
Long-term cost: -.09% of taxable payroll								
	Based on X being 2 percent							
II-B	-1.9	-5.4	-8.5	-11.4	-14.2	-16.8	-19.0	-77.2
III	-3.4	-10.9	-18.6	-25.1	-31.0	-37.0	-43.1	-169.1
Long-term cost: -.80% of taxable payroll								
	Based on X being 0.3 percent in 1983-85, 1 percent in 1986-88 and 1 1/2 percent thereafter [1]							
II-B	-0.5	-0.9	-0.5	-0.4	-0.5	-0.1	+0.1	-2.8
III	-1.9	-6.4	-10.6	-13.9	-16.8	-19.5	-22.6	-91.7
Long-term cost: Negligible								
	Based on X being 0.3 percent in 1983-85, 1 percent in 1986-88, 1 1/2 percent in 1989-2019, and 2 percent thereafter							
II-B	-0.5	-0.9	-0.5	-0.4	-0.5	-0.1	+0.1	-2.8
III	-1.9	-6.4	-10.6	-13.9	-16.8	-19.5	-22.6	-91.7
Long-term cost: -.38% of taxable payroll								

[1] These values of "X" approximate the real-wage differentials in the Alternative II-B estimate in the 1982 Trustees Report.

D-11.—Provide benefit increases based on the lesser of the annual percentage increase in wages or the annual percentage increase in prices, beginning in 1983. Include a "catch-up" provision, so that in times of a healthy economy (when wages rise faster than prices), benefits will be increased by wages if they had previously been increased by less than the full CPI—until any deficit relative to CPI rises is made up (so as to bring benefit levels up to the point where they are actually keeping up with inflation).[1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-0.2	-0.3	-0.0	-0.0	-0.0	-0.0	-0.0	-0.6
III	-1.7	-5.7	-9.2	-10.9	-11.2	-11.0	-10.2	-59.9

Long-term cost: -.06% of taxable payroll

[1] To further stabilize the financing of the program, this proposal could be combined with an automatic adjustment mechanism for the payroll tax rate and/or payments (or loans) from the General Fund of the Treasury based on either the combined OASDI Trust Fund or the level of unemployment.

D-12.—Same as option D-11, except that there would be *no* "catch-up" provision[1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	-0.2	-0.5	-0.6	-0.6	-0.6	-0.6	-0.7	-3.8
III	-1.7	-5.7	-9.2	-11.0	-11.8	-12.6	-13.7	-65.7

Long-term cost: -.43% of taxable payroll

[1] To further stabilize the financing of the program, this proposal could be combined with an automatic adjustment mechanism for the payroll tax rate and/or payments (or loans) fromthe General Fund of the Treasury based on either the combined OASDI Trust Fund or the level of unemployment.

Summary of Section E: Level of Primary Benefits

Option No.	Description	OASDI, cost 1983-89 (billions) II-B	III	Long-term cost
E-1	Increase "bend points" by 75% of the increase in wages until they are 80% of what they would have been under 100% wage indexing, effective 1984.	- $3	- $3	- 1.08%
E-2	Same as E-1, except effective date is 1987.	(1)	(1)	- 1.01
E-3	Same as E-1, except effective date is 2000.	0	0	- .80
E-4	Same as E-1, except effective date is 2010.	0	0	- .60
E-5	Same as E-1, except effective date is 2020.	0	0	- .37
E-6	Index "bend points" by 75% of increase in wages for 3 years, beginning 1987.	- 1/4	- 1/4	- .22
E-7	Change computation point for determining Average Indexed Monthly Earnings from age 62 to age 65.	- 3	- 3	- .25
E-8	Reduce percentages in PIA benefit formula gradually over time, by 10% relatively, effective in 1984.	- 3	- 3	- 1.08
E-9	Same as E-8, except effective in 1990.	0	0	- .95
E-10	Same as E-9, except 5% reduction.	0	0	- .50
E-11	Same as E-9, except no reduction on first percentage and larger reductions on other two percentages.	0	0	- .95

[1] Savings of less than $500 million.

E. Level of Primary Benefits

Present law. The Primary Insurance Amount, which is the benefit payable to a worker retiring at age 65 (and also to a disabled worker), is determined from a formula based on Average Indexed Monthly Earnings. This formula involves three different percentages which are applied to different levels of the AIME (as separated by the "bend points"), so as to give relatively higher benefits to lower-earnings persons than to higher-earnings persons.

Options:

E-1.—Increase the "bend points" in the PIA benefit formula by 75 percent of the increase in wages (rather than by 100 percent as under present law) for "X" years (until such bend points are 80 percent of what they would have been under 100 percent wage indexing), effective in 1984

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0.0	- 0.1	- 0.2	- 0.5	- 0.8	- 1.3	- 2.9
III	0	.0	- .1	- .2	- .6	- .9	- 1.4	- 3.2

25-year cost: - .28% of taxable payroll
50-year cost: - .79% of taxable payroll
Long-term cost: - 1.08% of taxable payroll

E-2.—Same as option E-1, except effective in 1987

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	0	0	-0.0	-0.1	-0.2	-0.3
III	0	0	0	0	-.0	-.1	-.3	-.4

Long-term cost: -1.01% of taxable payroll

E-3.—Same as option E-1, except effective in 2000

25-year cost: -.01% of taxable payroll
50-year cost: -.40% of taxable payroll
Long-term cost: -.80% of taxable payroll

E-4.—Same as option E-1, except effective in 2010

25-year cost: None
50-year cost: -.17% of taxable payroll
Long-term cost: -.60% of taxable payroll

E-5.—Same as option E-1, except effective in 2020

25-year cost: None
50-year cost: -.03% of taxable payroll
Long-term cost: -.37% of taxable payroll

E-6.—Index the "bend points" by 75 percent of the increase in wages for 3 years, effective in 1987

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	0	0	-0.0	-0.1	-0.2	-0.3
III	0	0	0	0	-.0	-.1	-.3	-.4

Long-term cost: -.22% of taxable payroll

E-7.—Change computation point for determining Average Indexed Monthly Earnings from age 62 to age 65 (so that, for retirement cases, 3 more computation years would be required in determining the AIME), phased in beginning with workers who attain age 62 in 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0.0	−0.2	−0.4	−0.6	−0.8	−1.0	−3.0
III	0	.0	−.2	−.4	−.7	−.9	−1.1	−3.3

Long-term cost: −.25% of taxable payroll

E-8.—Reduce the percentages in the PIA benefit formula—90 percent, 32 percent, and 15 percent—by 10 percent relatively, over a 15-year period (1984-98), so that they would ultimately be 81.0 percent, 28.8 percent, and 13.5 percent. This would have the effect ultimately of reducing benefits in *all* cases (regardless of earnings history) by 10 percent.

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−0.0	−0.1	−0.2	−0.4	−0.8	−1.2	−2.8
III	0	−.0	−.1	−.2	−.5	−.9	−1.3	−3.0

Long-term cost: −1.08% of taxable payroll

E-9.—Same as option E-8, except begin the reductions in 1990 (instead of 1984)

Long-term cost: .95% of taxable payroll

E-10.—Same as option E-9, except reduce the percentage factors by 5 percent relatively over an 8-year period

Long-term cost: .50% of taxable payroll

E-11.—Same as option E-9, except that the 90 percent factor would not be reduced, and the 32 percent factor would be lowered to 25 percent, and the 15 percent factor would be lowered to 13 percent

Long-term cost: .95% of taxable payroll

Summary of Section F: Retirement Age

Option No.	Description	OASDI cost 1983-89 (billions)		Long-term cost
		II-B	III	
F-1	Increase "normal" retirement age to 66 in 1999, beginning phase-in in 1990.	$0	$0	-0.52%
F-2	Increase "normal" retirement age to 66 in 2014, beginning phase-in in 2005.	0	0	-.41
F-3	Increase "normal" retirement age to 66 in 2024, beginning phase-in in 2015.	0	0	-.31
F-4	Increase "normal" retirement age to 67 in 2012, beginning phase-in in 2000.	0	0	-.86
F-5	Increase "normal" retirement age to 67 in 2022, beginning phase-in in 2010.	0	0	-.69
F-6	Increase "normal" retirement age to 67 in 2032, beginning phase-in in 2020.	0	0	-.48
F-7	Increase "normal" retirement age to 68 in 2017, beginning phase-in in 2000.	0	0	-1.22
F-8	Increase "normal" retirement age to 68 in 2027, beginning phase-in in 2010.	0	0	-.95
F-9	Increase "normal" retirement age to 68 in 2037, beginning phase-in in 2020.	0	0	-.63
F-10	Increase "normal" retirement age to 69 in 2022, beginning phase-in in 2000.	0	0	-1.53
F-11	Increase "normal" retirement age to 69 in 2054, beginning phase-in in 2000.	0	0	-.96
F-12	Increase "normal" retirement age to 66 in 2002, beginning phase-in in 1995, and thereafter, adjust according to changes in longevity.	0	0	-1.68

F. Retirement Age

Present law. Unreduced retirement benefits are available to insured workers, spouses, and widows and widowers at age 65 (the "normal" retirement age). Actuarially reduced benefits are available at age 62 for insured workers and spouses and at age 60 for widows and widowers (age 50 if disabled). For insured workers who delay receipt of benefits beyond age 65, retirement benefits are increased by 3 percent for each year of delay (for persons attaining age 65 after 1981). See table F-13 for actuarial benefit factors under present law and under each option as to normal retirement age.

Options:

F-1.—Gradually increase the "normal" retirement age to 66 in 1999, beginning the phase-in with those who attain age 62 in 1990[1]

25-year cost:	-.14% of taxable payroll
50-year cost:	-.38% of taxable payroll
Long-term cost:	-.52% of taxable payroll

[1] Early retirement benefits would continue to be available beginning at age 62 for insured workers and spouses and at age 60 for widows and widowers, but the actuarial benefit factors would be made smaller. The minimum age for eligibility for Medicare benefits would continue to be the "normal" retirement age for OASDI benefits. Disability benefits would be available to those disabled between age 65 and the increased "normal" retirement age, under the more lenient definition now applicable at ages 60-64. The age at which the earnings test no longer applies would be left at age 70 (if such age were increased in tandem with the increase in the normal retirement age, the reduction in cost would be somewhat larger).

F-2.—Gradually increase the "normal" retirement age to 66 in 2014, beginning the phase-in with those who attain age 62 in 2005

25-year cost:	–.00% of taxable payroll
50-year cost:	–.23% of taxable payroll
Long-term cost:	–.41% of taxable payroll

[1] See footnote 1, table F-1.

F-3.—Gradually increase the "normal" retirement age to 66 in 2024, beginning the phase-in with those who attain age 62 in 2015 [1]

25-year cost:	None
50-year cost:	–.12% of taxable payroll
Long-term cost:	–.31% of taxable payroll

[1] See footnote 1, table F-1.

F-4.—Gradually increase the "normal" retirement age to 67 in 2012, beginning the phase-in with those who attain age 62 in 2000 [1]

25-year cost:	–.03% of taxable payroll
50-year cost:	–.54% of taxable payroll
Long-term cost:	–.86% of taxable payroll

[1] See footnote 1, table F-1.

F-5.—Gradually increase the "normal" retirement age to 67 in 2022, beginning the phase-in with those who attain age 62 in 2010 [1]

25-year cost:	None
50-year cost:	–.32% of taxable payroll
Long-term cost:	–.69% of taxable payroll

[1] See footnote 1, table F-1.

F-6.—Gradually increase the "normal" retirement age to 67 in 2032, beginning the phase-in with those who attain age 62 in 2020 [1]

25-year cost:	None
50-year cost:	–.09% of taxable payroll
Long-term cost:	–.48% of taxable payroll

[1] See footnote 1, table F-1.

F-7.—Gradually increase the "normal" retirement age to 68 in 2017, beginning the phase-in with those who attain age 62 in 2000 [1]

25-year cost:	–.03% of taxable payroll
50-year cost:	–.72% of taxable payroll
Long-term cost:	–1.22% of taxable payroll

[1] See footnote 1, table F-1.

F-8.—Gradually increase the "normal" retirement age to 68 in 2027, beginning the phase-in with those who attain age 62 in 2010 [1]

25-year cost:	None
50-year cost:	− .40% of taxable payroll
Long-term cost:	− .95% of taxable payroll

[1] See footnote 1, table F-1.

F-9.—Gradually increase the "normal" retirement age to 68 in 2037, beginning the phase-in with those who attain age 62 in 2020 [1]

25-year cost:	None
50-year cost:	− .09% of taxable payroll
Long-term cost:	− .63% of taxable payroll

[1] See footnote 1, table F-1.

F-10.—Gradually increase the "normal" retirement age to 69 in 2022, beginning the phase-in with those who attain age 62 in 2000 [1]

25-year cost:	− .03% of taxable payroll
50-year cost:	− .88% of taxable payroll
Long-term cost:	− 1.53% of taxable payroll

[1] See footnote 1, table F-1.

F-11.—Gradually increase the "normal" retirement age to 69 in 2054, beginning the phase-in with those who attain age 62 in 2000 [1]

25-year cost:	− .01% of taxable payroll
50-year cost:	− .36% of taxable payroll
Long-term cost:	− .96% of taxable payroll

[1] See footnote 1, table F-1.

F-12.—Gradually increase the "normal" retirement age to 66 in 2002, beginning the phase-in with those who attain age 62 in 1995. Beginning with those who attain age 62 in 2002, automatically adjust such age (on a phased-in basis) so that the ratio of the retirement-life expectancy to the potential working-lifetime (from age 20 to the "normal" retirement age) remains the same over the years. The age at which early retirement benefits are first payable and the age at which the earnings test no longer applies would be increased in tandem with the increase in the normal retirement age.

Long-term cost: − 1.68% of taxable payroll

F-13.—Actuarial benefit factors under present law and under each option as to normal retirement age

Normal retirement age	Actuarial benefit factors			
	Worker, age 62	Spouse, age 62	Widow, age 60	Disabled widow, age 50
65	80.0%	75.0%	71.5%	50.0%
66	75.0	70.0	66.5	50.0
67	70.0	65.0	61.5	50.0
68	65.0	60.0	56.5	50.0
69	60.0	55.0	51.5	50.0

Summary of Section G: Disability Benefits

Option No.	Description	OASDI cost 1983-89 (billions) II-B	III	Long-term cost
G-1	Use medical-only definition of disability.	−$10	−$11	−0.06%
G-2	Apply disability eligibility criteria under present law for persons aged 60-64, to persons aged 55 and over.	+1	+2	+.04
G-3	Increase disability waiting period from 5 months to 6 months.	−2	−2	−.03
G-4	Require prognosis of 24 months of disability.	−4	−5	−.06
G-5	Change requirement for disability-insured status by increasing recency-of-work test to 30 quarters of coverage in last 40 quarters (rather than 20 out of 40).	−5	−6	−.25
G-6	Change requirement for disability insured status by eliminating the test of 20 quarters of coverage out of the last 40 quarters.	+20	+22	+.24

G. Disability Benefits

Present law. Benefits are available to insured workers who meet the statutory definition of disability, with a waiting period of 5 full calendar months before the first month of eligibility.

Options:

G-1.—Establish a medical-only definition of disability (so that nonmedical factors—such as age, education, and work experience—would no longer be considered in determining disability), effective for benefits for months after 1983 based on disabilities which begin after June 1983

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−0.2	−0.6	−1.3	−2.0	−2.7	−3.4	−10.2
III	0	−0.2	− .7	−1.4	−2.2	−3.1	−3.8	−11.4

Long-term cost: − .06% of taxable payroll

G-2.—Apply disability eligibility criteria under present law for persons aged 60-64, to persons aged 55 and over, effective in 1985

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	+0.1	+0.2	+0.3	+0.4	+0.4	+1.4
III	0	0	+ .1	+ .2	+ .3	+ .4	+ .5	+1.5

25-year cost: + .03% of taxable payroll
50-year cost: + .04% of taxable payroll
Long-term cost: + .04% of taxable payroll

G-3.—Increase waiting period to 6 months (instead of 5 months, as at present), effective for benefits for months after 1983 based on disabilities which begin after June 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−0.1	−0.3	−0.3	−0.3	−0.3	−0.4	−1.6
III	0	− .1	− .2	− .3	− .3	− .4	− .4	−1.8

Long-term cost: − .03% of taxable payroll

G-4.—Require prognosis of at least 24 months of disability (instead of 12 months, as at present), effective for benefits for months after 1983 based on disabilities which begin after June 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−0.1	−0.4	−0.6	−0.8	−0.9	−1.0	−3.8
III	0	− .1	− .5	− .7	−1.0	−1.1	−1.2	−4.6

Long-term cost: − .06% of taxable payroll

G-5.—Increase requirement for disability-insured status by requiring 30 quarters of coverage in the last 40 quarters (instead of 20 QC out of 40), effective for benefits for months after 1983, based on disabilities which begin after June 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−0.1	−0.3	−0.7	−1.0	−1.4	−1.7	−5.2
III	0	− .1	− .3	− .7	−1.1	−1.6	−2.0	−5.8

Long-term cost: − .25% of taxable payroll

G-6.—Change the requirement for disability-insured status by eliminating the test of 20 quarters of coverage out of the last 40 quarters, effective in 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+2.0	+3.3	+3.5	+3.6	+3.7	+3.9	+20.0
III	0	+2.0	+3.5	+3.7	+3.9	+4.2	+4.5	+21.8

Long-term cost: + .24% of taxable payroll

Summary of Section H: Proposals Affecting Primarily Women

Option No.	Description	OASDI cost 1983-89 (billions) II-B	OASDI cost 1983-89 (billions) III	Long-term cost
H-1	Divorced and disabled widow(er)'s benefits not to be terminated upon remarriage.	(1)	(1)	(1)
H-2	Provide benefits of 71.5% of deceased worker's PIA to disabled widow(er)s claiming benefits at ages 50-59.	+$1	+$1	+0.01%
H-3	Provide benefits of 100% of the deceased worker's PIA to disabled widow(er)s claiming benefits at ages 50-64.	+6	+6	+.03
H-4	Permit widow(er)s to rescind an early-retirement decision in certain cases by counting the reduction in the widow(er)'s benefit as "repayment" of the early retirement benefits paid.	(1)	(1)	(1)
H-5	Provide indexing of earnings records for purposes of deferred survivor benefits by wages instead of by prices.	(1)	(1)	+.05
H-6	Permit a divorced spouse to receive benefits regardless of whether the insured former spouse has retired.	(1)	(1)	(1)
H-7	Change special-minimum benefit to allow credit for 10 childcare years; increase number of years countable toward the special-minimum benefit from 30 to 35 years.	+15	+16	+.14
H-8	Allow up to 3, 5, or 10 childcare dropout years in computing the average earnings.	NA	NA	(2)
H-9	Adopt comprehensive earnings sharing, with 80% inheritance of earnings credits.	NA	NA	−.06
H-10	Adopt earnings sharing with 100% inheritance of earnings credits.	NA	NA	+.35
H-11	Adopt limited earnings sharing at divorce, and inheritance of earnings credits.	NA	NA	+.07
H-12	Adopt the HHS development of the recommendations of the 1979 Advisory Council regarding earnings sharing.	NA	NA	+.12

NA = not available.
[1] Less than $0.5 billion or less than 0.005 percent of payroll (as the case may be).
[2] The costs of each of these alternatives are shown on subsequent pages.

H. Proposals Affecting Primarily Women

Widow(er)'s Benefits

Present law. Benefits for widow(er)s who are divorced spouses and for disabled widow(er)s terminate when the beneficiary remarries.

Option:

H-1.—Do not terminate such benefits upon remarriage, effective in 1984

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1
III	0	+ .0	+ .0	+ .0	+ .0	+ .0	+ .0	+ .1

Long-term cost: Negligible

Disabled Widow(er)'s Benefits

Present law. Reduced benefits for widow(er)s without dependent children are available at ages 60–64 (71 1/2 percent of PIA at age 60), and 100 percent of the PIA is available at age 65. Disabled widow(er)s are eligible for reduced benefits at ages 50–59 (50 percent of PIA at age 50).

Option:

H-2.—Provide benefit of 71.5 percent of PIA (same as widow(er)'s benefits at age 60) to disabled widow(er)s claiming benefits at ages 50–59, effective in 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+1.4
III	0	+ .2	+ .2	+ .2	+ .2	+ .3	+ .3	+1.4

Long-term cost: + .01% of taxable payroll

H-3.—Provide benefit of 100 percent of PIA to disabled widow(er)s aged 50–64, effective in 1984

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+0.8	+0.8	+0.9	+1.0	+1.0	+1.1	+5.6
III	0	+ .8	+ .8	+ .9	+1.0	+1.1	+1.2	+5.8

Long-term cost: + .03% of taxable payroll

Limit on Widow(er)'s Benefits

Present law. There is an overriding limit which is only applicable when the deceased worker had received early retirement benefits; then, the widow's benefit cannot exceed the larger of the early retirement benefit or 82.5 percent of the PIA. This maximum is applicable only when the widow is at least age 62 and has the most effect when the woman was older than her husband.

Option:

H-4.—When such limit on widow(er)'s benefits is applicable, and the retired worker dies before age 65, the widow(er) may "rescind" the early retirement decision by counting the reduction in the widow(er)'s benefit resulting from such limit as "repayment" of the early retirement benefits paid (including any auxiliary benefits). The period of repayment should be determined from the amounts payable to the beneficiaries who are eligible as of the date of the worker's death.

Long-term cost: Negligible

Computation of Deferred Widow(er)'s Benefits

Present law. If a worker dies before reaching age 62, benefits for the widow(er) are based on the worker's earnings, as indexed to average wage levels in the second year preceding death; the benefit is indexed in and after the year of death to reflect changes in the CPI.

Option:

H-5.—Index earnings records for purposes of *deferred* survivor benefits (e.g., a woman widowed at age 55 is first eligible for widow's benefits at age 60) through the earlier of (1) the year that the worker would have reached age 60, or (2) 2 years before the survivor becomes eligible for aged widow's benefits at age 60, effective in 1985

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	+0.0	+0.0	+0.0	+0.1	+0.1	+0.2
III	0	0	+ .0	+ .0	+ .0	+ .1	+ .1	+ .2

Long-term cost: + .05% of taxable payroll

Divorced Persons

Present law. A divorced spouse cannot receive spouse's benefits until the former spouse begins to receive benefits.

Option:

H-6.—A divorced spouse (divorced at least 3 years) would be able to receive benefits if he or she meets the age requirements for eligibility, regardless of whether or not the insured former spouse, aged 62 or older, has retired (the earnings test would apply to each independently), effective in 1984 [1]

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1
III	0	+ .0	+.0	+.0	+.0	+.0	+.0	+.1

Long-term cost: Negligible

[1] As an alternative, the option could provide for a 1-year divorce requirement, instead of a 3-year requirement.

Childcare Credits

Present law. To compute the Average Indexed Monthly Earnings of retired workers, the 5 lowest years of indexed earnings are dropped from the appropriate averaging period. For workers attaining age 62 in 1991 or later, retirement benefits will be based on the highest 35 years of indexed earnings. Present law also provides a special minimum benefit as an alternative computation based on the worker's "years of coverage," which is designed for long-service workers with earnings at approximately the Federal minimum wage level.

Options:

H-7.—Change provisions for special-minimum benefit so as to allow credit for up to 10 childcare years (in which the worker had a child age 6 or under and did not earn enough to gain a year of coverage). Increase the number of years countable toward the special minimum benefit from 30 to 35, effective in 1984.

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	+1.8	+2.1	+2.4	+2.6	+2.9	+3.2	+15.0
III	0	+1.8	+2.2	+2.5	+2.8	+3.2	+3.6	+16.1

Long-term cost: + .14% of taxable payroll

H-8.—Allow up to (alternatively) 3, 5, or 10 childcare dropout years in computing Average Indexed Monthly Earnings for the purpose of calculating benefits under the regular benefit formula for each year the worker had a child under age 7 and did not earn more than half of the average wage of all covered workers during the year, effective in 1984 [1]

Long-term cost for allowing up to 3 years:	+.21% of taxable payroll
Long-term cost for allowing up to 5 years:	+.36% of taxable payroll
Long-term cost for allowing up to 10 years:	+.60% of taxable payroll

[1] Cost data for the short-term period are not available, but relatively little increase in cost would be involved during 1983–89.

Earnings Sharing Proposals

H-9.—Comprehensive "no cost" plan: The DHEW report, "Social Security and the Changing Roles of Men and Women," presented a comprehensive earnings sharing proposal, within a "no cost" framework. Under the proposal, a person's Social Security protection would be based on her or his earnings when unmarried and, when married, on one-half of the total earnings credits of the married couple. A couple's annual earnings would be divided equally during years of marriage. The earnings would be split equally on divorce or when one spouse reaches age 62. Such split would not apply under certain conditions: (1) on death of a spouse, 80 percent of total earnings would be inherited, but not less than 100 percent of the earnings of the higher earner; (2) for purposes of benefits for young survivors, earnings would not be transferred between spouses with regard to a marriage in effect at time of death; and (3) for purposes of disability benefits, earnings would not be shared with regard to a marriage in effect at time of disability. The proposal did not include any transitional proposals.

Long-term cost: −.06% of taxable payroll

H-10.—Plan for earnings sharing and inheritance of earnings credits (considered but not recommended by 1979 Advisory Council): Credits earned during years of marriage would be divided equally between spouses. Benefits for each person would be based upon earnings before and after the marriage, plus half the couple's earnings during the marriage. Earnings would be shared only for years after 1980. If the higher earner retired or became disabled before the lower earner, he or she would receive benefits based on the higher earner's full earnings, rather than half of the couple's combined earnings. Under a transitional provision (phased out by 2020), couples would receive the higher of the benefit calculated under earnings sharing or the benefit calculated under a transitional formula assuring the same purchasing power as under present law. A survivor would inherit the earnings credits of a deceased spouse acquired during the marriage. The survivor would receive 100 percent of the couple's combined earnings credits, plus any credits which the survivor had earned before or after the marriage.

Long-term cost: +.35% of taxable payroll

H-11.—1979 Advisory Council recommendation for inheritance of earnings credits at death of spouse and limited earnings sharing at divorce: A survivor could inherit the earnings credits of a deceased spouse from work that occurred during their marriage. At ages 60-61, reduced widow(er)'s benefits would be calculated only from inherited earnings credits. At age 62, the individual would be eligible for retired worker's benefits based on inherited earnings credits combined with own earnings credits. Inheritance would also eliminate disabled widow(er)'s benefits, because eligibility for DI could be established through inheritance. Upon request by either partner in a marriage of at least 10 years that ended in divorce, earnings credits would be split, for purposes of calculating retirement benefits only.

Long-term cost: + .07% of taxable payroll, without hold-harmless provision [1]

[1] The Advisory Council did not recommend a hold-harmless provision, which would provide present benefits for aged and disabled widow(er)s forever, if higher. With such a provision, the estimated long-term costs of this proposal is + .22 percent of taxable payroll.

H-12.—HHS development of the recommendations of the 1979 Advisory Council: Either partner, at time of divorce, could apply to have earnings credits shared for years during a marriage. Disability benefits would be calculated based on shared earnings, but entitlement to disability could not be gained therefrom. Credits acquired during years of marriage would be credited to the earnings record of the surviving spouse. Inherited credits would substitute for all present-law benefits payable to aged and disabled widow(er)s. Benefits for surviving children, widowed mothers and fathers, and children of retired or disabled workers would not be affected. Under the transition provision, those reaching age 62 before 2010 would be eligible for the new basis, but would continue to be eligible for auxiliary and survivor benefits if higher.

Long-term cost: + .12% of taxable payroll

Summary of Section I: Other Options for Benefit Changes

Option No.	Description	OASDI cost 1983–89 (billions) II-B	III	Long-term cost
I-1	Eliminate child's benefits for early retirement cases.	–$3	–$3	–0.02%
I-2	Eliminate all auxiliary benefits for early retirement cases.	–6	–7	–.02
I-3	Apply same Maximum Family Benefit for OASI cases as currently used for DI cases.	–4	–4	–.10
I-4	Phase out retirement earnings test for persons aged 65 and over in 1988, with annual exempt amount increasing in 1985–87.	+15	+17	+.14
I-5	Maintain age 72 as age at which earnings test does not apply.	–5	–6	–.03
I-6	Increase delayed-retirement credit from 3% to 6% for each year that retirement is postponed past age 65.	+1	+1	+.07
I-7	Provide partial refundable income tax credit at ages 65 and over when benefits are withheld under the earnings test.	0	0	0
I-8	Provide 10% benefit increase for beneficiaries when they reach age 80, gradually phased in.	+6	+7	+.25

I. Other Options Regarding Benefit Changes

I-1.—Eliminate benefits for children of retired workers who have not attained age 65, effective for persons attaining age 62 in 1984

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983–89
II-B	0	–0.1	–0.2	–0.4	–0.6	–0.7	–0.8	–2.8
III	0	–.1	–.2	–.4	–.7	–.8	–.9	–3.1

Long-term cost: –.02% of taxable payroll

I-2.—Eliminate all auxiliary benefits for early retirement cases, effective for persons attaining age 62 in 1984

Estimate	Cost (in billions of dollars) 1983	1984	1985	1986	1987	1988	1989	1983–89
II-B	0	–0.1	–0.4	–0.8	–1.4	–1.7	–1.8	–6.2
III	0	–.1	–.4	–.9	–1.6	–1.9	–2.0	–6.9

Long-term cost: –.02% of taxable payroll

I-3.—Apply same Maximum Family Benefit for OASI cases as is currently used for DI cases, effective for persons attaining age 62 after 1983 and for deaths before age 62 occurring after 1983. (In DI cases, family benefits are limited to the lesser of 85 percent of AIME or 150 percent of PIA, but never less than 100 percent of PIA.)

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	−0.1	−0.3	−0.5	−0.7	−1.0	−1.3	−3.9
III	0	−.1	−.3	−.5	−.8	−1.1	−1.4	−4.2

Long-term cost: −.10% of taxable payroll

I-4.—Phase out retirement earnings test for beneficiaries aged 65 or older, with annual exempt amount increasing to $10,000 in 1985, $15,000 in 1986, and $20,000 in 1987, and with elimination of test in 1988

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	0	0	+0.8	+1.6	+2.4	+5.1	+5.5	+15.4
III	0	0	+.8	+1.7	+2.7	+5.8	+6.4	+17.4

Long-term cost: +.14% of taxable payroll

I-5.—Maintain age 72 as age at which earnings test no longer applies

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	−0.6	−0.6	−0.7	−0.7	−0.8	−0.9	−0.9	−5.2
III	−.6	−.6	−.7	−.8	−.9	−1.0	−1.1	−5.7

25-year cost: −.02% of taxable payroll
50-year cost: −.03% of taxable payroll
Long-term cost: −.03% of taxable payroll

I-6.—Increase the delayed-retirement credit from 3 percent to 6 percent for each year that receipt of benefits is postponed past age 65 up until age 70, beginning in 1983

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B	+0.0	+0.0	+0.0	+0.1	+0.2	+0.4	+0.6	+1.3
III	+.0	+0	+.0	+.1	+.2	+.4	+.7	+1.4

25-year cost: +.02% of taxable payroll
50-year cost: +.05% of taxable payroll
Long-term cost: +.07% of taxable payroll

I-7.—Provide a partial refundable income tax credit for persons aged 65 or older who do not receive benefits because of the earnings test (recommendation of 1981 National Commission on Social Security), effective in 1983.

No short-term or long-term cost to trust funds

I-8.—Provide a 10 percent increase in benefit amounts for beneficiaries when they attain age 80, phased in over a 10-year period (i.e., a 1 percent increase during 1984, rising to 10 percent during 1993 and after)

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983–89
II-B	0	+0.2	+0.5	+0.9	+1.3	+1.6	+2.0	+6.5
III	0	+.2	+.5	+1.0	+1.5	+1.8	+2.3	+7.3

Long-term cost: +.25% of taxable payroll

Summary of Section J: Taxation of Benefits

Option No.	Description
J-1	Include 50 percent of OASDI benefits in adjusted gross income for income tax purposes, with the proceeds credited to the OASDI Trust Funds.
J-2	Same as option J-1, except that 100 percent of OASDI benefits would be included in adjusted gross income.
J-3	Include OASDI benefits in adjusted gross income for purposes of the income tax in the same manner as are unemployment benefits, with the proceeds being credited to the OASDI Trust Funds.
J-4	Include all OASDI benefits in adjusted gross income as soon a such benefits first exceed the total employee OASDI taxes paid, with the proceeds being credited to the OASDI Trust Funds.
J-5	Consider OASDI benefits as "income" for purposes of determining marginal income tax rates applicable to *other* income (OASDI benefits would *not* be taxable), with the proceeds being credited to the OASDI Trust Funds.
J-6	Include 50 percent of OASDI benefits in adjusted gross income, phased in over 40 years, with the proceeds being credited to the OASDI Trust Funds. Also, there would be a phased-in exclusion of the employee OASDI taxes from such gross income.
J-7	Same as option J-6, except that 100 percent of benefits would be included in adjusted gross income.

Note: See subsequent pages for cost data, which are not summarized here because of the diverse nature of the estimates for the various proposals. The short-range cost estimates presented here were prepared by the staff of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services. The staff of the Joint Committee on Taxation, U.S. Congress, has also made estimates of this type, and these tend to be higher than those shown in this section (e.g., for option J-3, the total savings for 1983-89 shown here as $29 billion are $46 billion according to the Joint Comittee estimate).

J. Taxation of Benefits[1]

Present law. OASDI benefits are *not* subject to income tax.

Options:

J-1.—Include 50 percent of OASDI benefits in adjusted gross income for Federal income-tax purposes, with the proceeds credited to the OASDI Trust Funds, effective in 1984

	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	0	-7.0	-7.8	-8.5	-9.2	-10.0	-10.8	-53.3

Long-term cost: -6% of taxable payroll

J-2.—Same as option J-1, except that 100 percent of OASDI benefits would be included in adjusted gross income

	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	0	-17.7	-19.5	-21.4	-23.3	-25.3	-27.4	-134.6

Long-term cost: -1.4% of taxable payroll

[1] All proposals in this section assume that the tax credit for persons aged 65 or older is eliminated. Such elimination provides most of the additional revenue in the early years for proposals J-3, J-4, J-6, and J-7.

J-3.—If benefits plus other income exceed $12,000 for single persons or $18,000 for married couples, then include $1 of OASDI benefits for each $2 of income above the respective thresholds in adjusted gross income for Federal income tax purposes, up to a maximum of 50 percent of OASDI benefits. (Unemployment benefits are currently treated somewhat in this manner.) The proceeds would be credited to the OASDI Trust Funds, effective in 1984.

	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	0	-3.4	-3.9	-4.5	-5.1	-5.7	-6.4	-29.0

Long-term cost: .5% of taxable payroll if dollar figures remain unchanged over the long range (or .3% of taxable payroll if they are indexed to wage changes).

J-4.—Include the amount of OASDI benefits paid after 1983, after recovery of employee contributions, in adjusted gross income for Federal income tax purposes. The proceeds would be credited to the OASDI Trust Funds, effective in 1984.

Short-term cost: Little effect in the first few years. Ultimately, the effect would be similar to option J-2.
Long-term cost: -1.2% of taxable payroll

J-5.—Consider OASDI benefits as "income" for purposes of determining the marginal Federal income tax rates applicable to *other* income, but continue to *exclude* OASDI benefits from such taxation. The additional proceeds resulting from such changed procedure would be credited to the OASDI Trust Funds, effective in 1984.

	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
	0	-13.1	-14.4	-15.7	17.0	-18.3	-19.7	-98.1

Long-term cost: Not available

J-6.—Include 50 percent of OASDI benefits in adjusted gross income for Federal income tax purposes, phased in over 40 years, with the proceeds being credited to the OASDI Trust Funds, effective in 1984. At the same time, there would be a phased-in exclusion of the employee OASDI taxes from such gross income (the resulting loss in tax revenues would not be taken from the OASDI Trust Funds).

Short-term cost: Little effect in the early years
Long-term cost: -.4% of taxable payroll
Short-term cost: Little effect in the early years

J-7.—Same as option J-6, except that 50 percent of OASDI benefits would be included in such adjusted gross income in 1984, with increases over 40 years so that ultimately 100 percent would be so included

Short-term cost: Little effect in the early years
Long-term cost: -1.20% of taxable payroll

Summary of Section K: Other Issues

Option No.	Description
K-1	Trust fund investment procedures
K-2	Social Security and the unified budget
K-3	Social Security Administration to become an independent agency
K-4	Benefits to certain overseas beneficiaries
K-5	Eliminate mandatory retirement
K-6	Require continued accrual of pensions
K-7	Encourage employment of low-income older workers

K. Other Issues

K-1 Trust Fund Investment Procedures

Present law. The OASI, DI, HI, and SMI Trust Funds are invested in U.S. Government obligations, primarily in special issues, but also in publicly available obligations of the Federal Government or certain Federal agencies. Maturity dates for the special issues are intended generally to be spread in equal amounts over the next 15 years. The interest rate for new special issues is equal to the average market-yield rate on all marketable government obligations that are not due or callable for at least 4 years.

Option: Revise the investment procedures of the four trust funds in the following manner—(1) in the future, all special issues would be invested on a month-to-month bases, at an interest rate based on the average market rate of all public-debt obligations outstanding, exclusive of "flower" bonds; (2) all present special issues would be redeemed; (3) all "flower" bonds would be redeemed at their current market values (not their face or maturity values); and (4) all other current holdings would be held until maturity.

K-2 Social Security and the Unified Budget

Present law. The operations of the OASI, DI, HI, and SMI Trust Funds are included in the Unified Budget.

Option: Remove the operations of the four trust funds from the Unified Budget.

K-3 Social Security Administration to Become Independent Agency

Present law. The Social Security Administration is under the jurisdiction of the Department of Health and Human Services.

Option: Establish an independent Social Security agency, removed from the Department of Health and Human Services, and reporting directly to the President. This agency would be headed by a board, which might consist of three members appointed by the President, with Senate confirmation (e.g., the Chairman would have a term corresponding with that of the President, while the other two members would have to be of different political parties, with 4-year terms expiring at the end of 1986, 1990, etc.).

K-4 Benefits to Certain Overseas Beneficiaries

Present law. OASDI benefits are payable outside of the United States—whether to citizens or noncitizens—on exactly the same basis as in the United States, except when the individual is a noncitizen and had only a short period of coverage, or when the individual is a citizen of a country which does not pay benefits to U.S. citizens under parallel circumstances, or when the individual is residing in a country where there is no reasonable assurance that checks can be cashed at full value.

Option: Prohibit benefit eligibility for auxiliary benefits for spouses and children of beneficiaries living abroad when such auxiliary beneficiary had not resided in the U.S. for at least 5 years and when such auxiliary beneficiary continues to reside abroad.

Long-term cost: -.01% of taxable payroll

K-5 Eliminate Mandatory Retirement

Amend the Age Discrimination in Employment Act to remove the upper age limit of 70, thereby eliminating mandatory retirement at any age.

Long-term cost: -.03% of taxable payroll

K-6 Require Continued Accrual of Pensions

Amend the Employee Retirement Income Security Act to require employers to continue accruing pensions for workers after age 65.

Long-term cost: Not available

K-7 Encourage Employment of Low-Income Older Workers

Amend the Targeted Jobs Tax Credit to include low-income older workers (age 62 and older).

Long-term cost: Not available