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Social Security: Public and Private Sector Policy Options for the Future

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SOCIAL SECURITY: PUBLIC AND PRIVATE SECTOR POLICY OPTIONS FOR THE FUTURE

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Americans have been told for more than a decade that something must be done to restore financial soundness to the Social Security system.[1] In fact, Social Security is running out of money. In a recent staff report to the Committee On Finance of the United States Senate, it was stated that the actuarial forecasts of the financial condition of social security prepared by the Board of Trustees[2] have grown dramatically worse from one report to the next. In a span of four years from 1973 to 1977, the projected long range deficit in the Social Security trust funds jumped from 0.32% of taxable payroll, or 3 % of the expected social security expenditures, to 8.2 % of taxable payroll, or an amount exceeding 40% of the expected expenditures of the program.[3] Moreover, in 1977, "it was estimated too that the assets of the [Disability Insurance] Trust Fund would be exhausted by 1979, the assets of the [Old-Age and Survivors Insurance] Trust Fund would be exhausted by the mid-1980's, and the assets of the Hospital Insurance Trust Fund would be exhausted by the late 1980's."[4] Even these gloomy projections were proved inaccurate as economic conditions have continued to worsen.[5] Public opinion surveys tell us that the people, by a decisive margin, want to preserve the goals of the system.[6] Concern over the imminent collapse of the Social Security system is not limited to those who rely heavily or exclusively upon Social Security benefits. Those approach-

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1. STAFF OF SUBCOMM. ON SOCIAL SECURITY, HOUSE COMM. ON WAYS AND MEANS, 96TH CONG., 2D SESS., SOCIAL SECURITY AND ECONOMIC CYCLES (Subcomm. Print 1980).
2. The Board of Trustees of the Social Security Trust Funds is made up of the Secretaries of Health and Human Services, Labor, and the Treasury. The Board is required by law to prepare annually a thorough analysis of the acturial status of the Social Security programs (Old-Age, Survivors, Disability, and Hospital Insurance) both over the short range and over the long range extending well into the future. The Trustees are required to transmit these annual reports to the Congress no later than April 1 of each year, at which time their reports and findings as to the financial status of the funds form the benchmark for discussion and debate of the programs. STAFF OF SENATE COMM. ON FINANCE, 97TH CONG., 1ST SESS., STAFF DATA AND MATERIALS RELATED TO SOCIAL SECURITY FINANCING 1 (Comm. Print 1981) [hereinafter cited as 1981 FINANCING REPORT].
3. *Id. See* Figure 1, Social Security's Deficit, *infra* p. 94.
4. 1981 FINANCING REPORT, *supra* note 2, at 1.
5. *Id.* at 2. *See* Figure 2, How Estimates Have Changed, *infra* p. 94.
6. CONG. RESEARCH SERV., LIB. OF CONG., ISSUE BRIEF NO. 81-143, SOCIAL SECURITY, 1981: PUBLIC OPINION (1981).

ing retirement are equally concerned.[7] Similarly, millions of Americans are contributing substantial money to a system they fear may go bankrupt before they can reap the benefits of their labor.[8]

No less disquieting to these working contributors is the difficulty, if not the impossibility, of making both mandatory contributions to the Social Security system and voluntary payments to a private pension plan. If Social Security is to supplement private retirement plans, wage earners must not be foreclosed from contributing to their private pension plans because of the high cost of Social Security taxes.

The popular belief that the problems which plague the Social Security system are the result of short-term economic conditions must be discarded.[9] The real problems are deeply rooted in the system itself. Only by dealing with these fundamental flaws can the financial integrity of the system be secured. The desire to preserve the social benefits of the present system mandates that the government take the bold steps necessary to reestablish the program's financial integrity.

Congress must comprehensively assess the goals of Social Security and determine the most equitable and realistic method of achieving those goals. In doing so, Congress must focus its attention on the several factors which are the primary cause of the current crisis in Social Security:

(1) the inclusion of automatic increases in benefits indexed to the Consumer Price Index as part of the 1972 Social Security Amendments;[10]

(2) a dramatic shift in the ratio between the number of Social Security recipients and the number of workers contributing to the System;[11] and

(3) the inclusion of benefits not originally granted by the Social Security system.

This article examines these factors and sets forth some of the major public and private sector policy options which could, with careful preparation, restore the system's strength.

WEAKENED FISCAL BASE

Since the 1972[12] and 1977[13] amendments to the Social Security Act, economic assumptions upon which these amendments were based have

7. *Poll Shows Americans Losing Faith in Future of Social Security System*, N.Y. Times, July 17,1981, at 12, cols. 1-2.
8. *Id.*
9. *Id.*
10. Social Security Amendments of 1972, Pub. L. No. 92-603, 86 Stat. 1329 (1972) (currently codified at 42 U.S.C. §415 (i) (1976 & Supp. II 1978) [hereinafter cited as 1972 Social Security Amendments].
11. STAFF OF SENATE SPECIAL COMM. ON AGING, 97TH CONG., 2D SESS. DEVELOPMENTS IN AGING: 1980 REPORT (Comm. Print 1982) [hereinafter cited as 1980 AGING REPORT].
12. *Id.*
13. Social Security Amendments of 1977, Pub. L. No. 95-216, 91 Stat. 1509 (1977).

proven to be extraordinarily optimistic.[14] It was upon these assumptions that Congress altered both the benefit structure and the financing provisions of the Social Security Act. In 1972, it was estimated that the Consumer Price index (CPI), to which benefit increase provisions were tied, would increase at a rate of three percent per year for the first half of the decade before phasing down to a long-term level of about 2.8% annually.[15] However, the CPI rose by 6.2% in 1973, 11% in 1974, stabilized to an average increase of just above 6.5% per year for the years 1976 through 1978, then rose by 11.5% in 1979, 13.5% in 1980 and 10.2% in 1981.[16]

This higher rate of increase in the CPI, due primarily to inflation, has caused Social Security benefits to increase beyond expectation. As a consequence, though it was assumed that approximately nine billion dollars would be added to Social Security program revenue between 1973 and 1977,[17] this period produced a seven billion dollar deficit.[18] Furthermore, the 1975 report of the Board of Trustees forecast that the disability insurance fund would have difficulty meeting its benefit obligations beginning in 1980.[19] By 1978, the difficulty had already arisen. If the 1977 amendments to the Social Security Act had not shifted revenues to the fund, the program would have experienced fiscal disaster. [20]

While the inflation rate has been a major contributor to current short-term problems in Social Security, the changing population has added to the long-range instability of the program.[21] President Franklin Roosevelt's 1935 Committee on Economic Security, the founders of the Social Security program, had projected that the elderly population would amount to 17 million, 19.1 million, and 19.3 million for the years 1980, 1990, and 2000, respectively.[22] In fact, the Committee severely underestimated the improved health and increasing longevity of older Americans.[23] The 1980 Census recorded 25.5 million people aged sixty-five and older. This was a ten-fold increase from their number in 1880. By the year 2000, it is estimated that the population sixty-five and older will increase to at least thirty million.[24]

As the over sixty-five population increases, so to will increases in

14. R. S. KAPLAN, FINANCIAL CRISIS IN THE SOCIAL SECURITY SYSTEM; *see also* REPORTS OF THE 1975 QUADRENNIAL ADVISORY COUNCIL ON SOCIAL SECURITY, xv, 13-20, 89-132; REPORT OF THE PANEL ON SOCIAL SECURITY FINANCING, 3-4; STAFF OF HOUSE COMM. ON WAYS AND MEANS, SUBCOMM. ON SOCIAL SECURITY, OPTIONS FOR FINANCING THE SOCIAL SECURITY PROGRAM. 94TH CONG., 1ST SESS. (Comm. Print 1979).

15. *See* J. PEACHMAN, THE CRISIS IN SOCIAL SECURITY: PROBLEMS AND PROSPECTS 36 (1977).

16. 1981 FINANCING REPORT, *supra* note 2, at 82.

17. *Id.* at 81-84.

18. *Id.* at 83.

19. BOARD OF TRUSTEES OF OLD-AGE, SURVIVORS AND DISABILITY INSURANCE TRUST FUND, 1975 ANNUAL REPORT 29-56 (1975).

20. Id

21. J. PEACHMAN, *supra* note 15, at 7.

22. COMMITTEE ON ECONOMIC SECURITY, REPORT TO THE PRESIDENT (1935).

23. *Id.*

24. 1980 AGING REPORT, *supra* note 11, at 2.

the life expectancy of the aged.[25] In addition, the trend toward early retirement is continuing.[26] These factors, combined with a lower birth rate, underscore the fundamental shift in the ratio of contributors to Social Security to the number of recipients.[27]

In 1950, the ratio of workers for every recipient was 16.5 to 1.[28] Since that time, the figure has drastically decreased. In 1960, the ratio was 5.1 to 1; in 1970 it was 3.6 to 1; in 1980 it was 3.3 to 1. By the year 2030, it is projected to be only 2 to 1.[29]

This weakening of the financial base of the system over the past thirty years can be demonstrated in another way. In 1950, 138.7 months or 11.5 years worth of expenditures were on hand in the Old-Age, Survivors, and Disability Trust Funds.[30] This meant that if the revenues coming into the system had suddenly stopped, there would have been enough assets in the trust funds to pay for 11.5 years worth of benefits and administration. As of early 1982, only 1.8 months worth of expenditures were on hand.[31]

The 1972 Social Security Amendments[32] provided for an annual increase in Social Security benefits. It was believed that an automatic increase provision linked to increases in consumer prices would result in benefit increases considerably lower and more closely tied to economic circumstances than would result from Congress acting on an ad hoc basis.[33] Between February 1965, and January 1971, Congress increased Social Security benefits by thirteen percent, fifteen percent, and ten percent, substantially exceeding the twenty-seven percent rise in consumer prices during this time. While the intent behind the indexing was laudable, the consequences for the fiscal health of the system were not.

ADDITIONAL BENEFICIARIES OF THE SOCIAL SECURITY TRUST FUNDS

Since the passage of the Social Security Act in 1935, the program has grown both in terms of cost and more importantly, with regard to

25. *Id.*
26. *Id.*
27. SOC. SEC. ADMIN., U.S. DEPT. OF HEALTH AND HUMAN SERV., ACTUARIAL STUDY NO. 85 SOCIAL SECURITY AGE POPULATION PROJECTION, *reprinted in* SENATE SPEC. COMM. ON AGING, REPORT NO. 317, DEVELOPMENTS IN AGING, 97th Cong., 1st Sess. vol. 1, at 1 (1981) [hereinafter PROJECTION].
28. Kirviscusi & Zeckhauser, *The Role of Social Security in Income Maintenance*, in THE CRISIS IN SOCIAL SECURITY: PROBLEMS AND PROSPECTS 41-64 (M.J. Boskin, ed. 1977).
29. PROJECTION, *supra* note 27.
30. BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS AND DISABILITY INSURANCE TRUST FUND, 1982 ANNUAL REPORT 66 (1982) [hereinafter cited as 1982 TRUSTEE'S REPORT].
31. Id. *at 109.*
32. *Id. See* 1972 Social Security Amendments, *supra* note 10, at 42.
33. Prior to the passage of the 1972 amendments which established an annual cost-of-living adjustment (COLA) and tied to the C.P.I., Congress would grant Social Security recipients a COLA for whatever amount they deemed necessary and reasonable.

the types of persons who are eligible for benefits.[34] Given the financial instability that confronts the system many of the features of the program added after 1938 should be reevaluated, and possibly terminated. Some of the major and minor benefit improvements made in the last few decades illustrate the unrealistic attitude that has prevailed in Congress during that period.

Disability Benefits

In the early 1950's Congress amended the Social Security Act to create a program to provide cash benefits to severely disabled workers.[35] The disability program went into effect in 1956. In 1958, coverage was extended to the dependents of disabled workers. The purpose of the extension was to minimize the reduction or loss of benefits suffered by certain older workers who, because they became disabled prior to reaching retirement age, had periods of reduced or no earnings included in their records for purposes of computing retirement benefits.[36]

The disability program was designed to be funded out of a Social Security trust fund, as was the retirement program. Thereafter the Disability Insurance Trust Fund was integrated into the Social Security system. Congress increased the Social Security tax to offset any costs that would result from the new program. The Senate Finance Committee and the House Ways and Means Committee intended that the program be financed through this increase in the Social Security tax and not funded out of general revenues.[37] As noted above, this has not been the case recently.

The disability program has cost $129 billion since it began.[38] Dissolution of the Disability Insurance Trust Fund might provide sufficient funds to stave off the current financial problems. Any such change, however, should be considered as only one of many possible structural changes.[39] In retrospect, perhaps this program should have been viewed more as a welfare program and, therefore, been based on an individual's income rather than on participation in Social Security.

Student Benefits

In 1965, Congress amended the Social Security Act to make eligible for benefits those students who are unmarried and the dependent of someone who is either deceased, receiving disability benefits, or receiv-

34. CONG. RESEARCH SERV., LIB. OF CONG., ISSUE BRIEF NO. 80-127, SOCIAL SECURITY BENEFITS, CASH RELIEF AND FOOD AID: A SHORT HISTORY (1980).
35. *Id.* at 7.
36. *Id.*
37. *See* Speech by Senator Robert Packwood to Portland, Oregon senior citizens group (October 1980).
38. Soc. Sec. Admin., U.S. Dept. of Health and Human Services, 45 SOC. SEC. BULL. 43 (1982). Figure is for the period 1957 to 1981.
39. Memorandum from Harry C. Ballantyne, Deputy Chief Actuary, Social Security Administration (Aug. 4,1981).

ing old-age or survivors benefits under Social Security.[40] The Senate Finance Committee believed that a "child over age 18 who is attending school full-time is dependent and that it is not realistic to stop such a child's benefit at age 18." The Committee expected that a child "may be prevented from going to college by loss of parental support and loss of his benefits; he may even be prevented from finishing school."[41] Since 1965, this new provision alone has resulted in a seventeen billion dollar expenditure from the trust funds.[42] Under terms of the recently enacted Budget Reconciliation bill, however, this provision will be phased out over the next four years.[43]

Transitionally Insured

In 1965, an individual must have had a minimum of six quarters of coverage to be eligible for Social Security benefits.[44] During debate on the 1965 Social Security amendments, an amendment was added in both the House and Senate bills to provide retirement benefits for people "who reached retirement age in 1954, 1955, or 1956, if they had one quarter of coverage for each year that elapsed after 1950 and up to 1954."[45] This new provision required only three quarters of coverage rather than six, as under current law at that time, to be eligible for retirement benefits.

Prouty Benefits

The Tax Adjustment Act of 1966[46] included an amendment proposed by Senator Winston L. Prouty (R-Vt.) which guaranteed Social Security benefits for certain uninsured individuals. Senator Prouty believed that the many hundreds of thousands of seniors aged sixty-five and older who, because the system did not permit them to participate, had no quarters of coverage should not be excluded from retirement benefits.[47] The Senator's intention was to provide blanket coverage under the Social Security program for all those age seventy and older not otherwise eligible for Social Security under a program of minimum benefits.[48] This amendment guaranteed that any person who had attained age seventy-two before 1968 would be eligible for Social Security benefits.[49]

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40. *Id. See also supra* note 34 at 6.
41. STAFF OF SENATE COMM. ON FINANCE, 89TH CONG., 1ST SESS. 96-97 (1965) [hereinafter cited as 1965 SENATE REPORT].
42. 44 SOC. SEC. BULL. 16 (1980).
43. Omnibus Budget Reconciliation Act of 1981, Pub. L. No. 97-35, 95 Stat. 357 (1981).
44. The Social Security Act of 1965, Pub. L. No. 89-97, 79 Stat. 286 (1965).
45. 1965 SENATE REPORT, *supra* note 41, at 105.
46. Tax Adjustment Act of 1966, Pub. L. No. 89-368, 80 Stat. 38 (1966) [hereinafter cited as Tax Act of 1966].
47. 112 CONG. REC. 5,289-90 (1966).
48. *Id.*
49. Tax Act of 1966, *supra* note 46.

Disabled Widows Benefits

Prior to 1967, Social Security benefits for widows and widowers were not provided on the basis of disability.[50] In 1967, the Social Security program was further expanded to provide Social Security benefits for certain totally disabled widows, including surviving divorced wives, and totally disabled dependent widowers.[51] This liberalization of the program allowed for monthly benefits to be provided to widows and dependent widowers who became totally disabled before or within seven years after a spouse's death or, in the case of a widow, before or within seven years after the end of her entitlement to mother's benefits.[52] The benefits provided to disabled widows and dependent widowers was equal to the amount paid to a person who retired at age sixty-two.[53]

PUBLIC SECTOR OPTIONS

Having examined the actions which have contributed to the economic instability of the Social Security program, this section will set forth public sector policy options geared to solve the program's current and future financial problems.

The public sector changes that will be discussed have a two-fold purpose: to achieve changes in the Social Security program that will result in much-needed savings, and to do so in a way which does not affect present or future elderly or disabled recipients. This listing is not exhaustive. The intent is to suggest both short-term strategies that will not disrupt the retirement plans of those who are now in retirement or approaching retirement, and long-term structural changes that would be beneficial to both the financial stability of the system and to the economy.

Modifications to COLA Indexing

In 1938, Congress established the first indexing program when it tied agriculture support prices to the ratio of the index of prices paid by farmers to the index of prices received by farmers.[54] More than three decades later, Congress added indexing to the Social Security program as one of the provisions of the 1972 Social Security Act amendments.[55] As enacted, Social Security benefits were to be adjusted to compensate for increases in the "cost of living" as measured by the CPI.[56]

50. Social Security Amendments of 1967, Pub. L. No. 90-248 §104, 81 Stat. 821 (1967) (amending 42 U.S.C. §402 (e) & (f)).
51. Tax Act of 1966, *supra* note 46.
52. *Id.*
53. *Id.*
54. Price Adjustment Act of 1938, ch. 554, tit. V, § 501, 52 Stat. 819 (1938), *repealed by* ch. 792, tit. IV, § 414, 63 Stat. 1057 (1949).
55. 1972 Social Security Amendments, *supra* note 10.
56. *Id.*

Gross cost increases in the Social Security program because of indexing have caused the current 1982 cost to be 285% greater than the 1978 gross cost.[57] Furthermore, the added cost of automatic benefit increases is estimated by the Social Security Administration to have been over sixteen billion dollars in 1980 and over fifteen billion dollars in 1981.[58] The July, 1982, boost is estimated to cost over eleven billion dollars on an annual basis.[59] While inflation itself may be the culprit, the institutionalization of that inflation in the Social Security program through automatic cost-of-living adjustments (COLA) is a major cause of the system's short-term problems. Therefore, Congress should consider modifying the automatic COLA increase in attempting to alleviate the short-term financial problems of the system. Modifying the automatic COLA is the fairest and most nondisruptive way of dealing with the problem through benefit curtailments.

Though there has been a great deal of discussion as to whether the CPI is too heavily weighted with respect to housing cost increases,[60] there is no consensus on this issue. Many organizations representing the elderly have stated that the index understates the impact of inflation on Social Security recipients and should be increased rather than decreased.[61] It is probable, though, that annual savings in the multi-billion dollar range could be achieved by adjusting the method by which the CPI is calculated to eliminate the distortions created by housing cost increases.[62]

Several other suggested modifications of indexing meet the two criteria of easing the program's financial problems but in a fair and nondisruptive way. When a Social Security recipient first becomes eligible at age sixty-two, his or her benefits are indexed for changes in the cost-of-living in that year and each year thereafter without regard to whether or not he or she has actually filed for benefits.[63] These benefit increases will eventually be reflected in the benefits they receive when they do file.

This means that a person who turned sixty-five and began receiving benefits in January, 1981, received an eleven percent COLA increase in July, 1981, and was on the benefit roster for the entire year. The person who, on the other hand, turned sixty-five and retired in December,

57. PROJECTION, *supra* note 27.
58. *Id.*
59. *Id.*
60. *Changes in the Consumer Price Index: Hearings Before Subcomm. on Census and Population of the House Comm. on Post Office and Civil Serv.* 97th Cong., 1st Sess. (1981) (testimony by Janet Norwood, Commissioner of the Bureau of Labor Statistics); *see also Hearings Before Task Force on Indexing Entitlements and Uncontrollables of the House Comm. on the Budget*, 97th Cong., 1st Sess. 75 (1981) (testimony of Alice Rivlin, Director, Congressional Budget Office).
61. *Id.* (testimony by the American Association of Retired Persons, National Retired Teachers Association).
62. 128 CONG. REC. S5320, S5323 (daily ed. May 14, 1982) (statement by Senator Ernest Hollings, D-S.C.).
63. 42 U.S.C. §415 (i) (1976 & Supp. II 1978).

1981, was on the benefit roster for only one month of that calendar year, but, nonetheless, his initial benefit will reflect the entire COLA increase given that previous July.

One approach to modifying the COLA along the above lines would be to delay the COLA increase for the first year a recipient enters the program. In other words, if a recipient entered the program any time during 1981, he or she would not receive a COLA increase until the following year. This change would result in an estimated savings of $400 million in fiscal year 1982, and a cumulative savings of $6.1 billion by 1986.[64]

An alternative to denying a COLA for the first year a recipient enters the program would be to pro-rate COLA increases based upon the number of months in which the worker was eligible prior to receiving benefits. Such a procedure would prevent gaming the system by timing retirement so as to reap the greatest advantages from benefit increases. The change would result in an estimated savings of $400 million in fiscal year 1983, and a cumulative savings of $3.9 billion by 1986.[65]

A third possibility would be to change the base upon which the COLA increase is calculated. Under present law, a Social Security recipient receives a COLA increase each year which is added to the initial monthly benefit, thereby compounding the benefit amount and increasing the base upon which the next COLA increase is calculated.[66] Thus, if a person retired with a monthly benefit of $600 in January, 1981, and received a COLA increase of eleven percent in July, 1981, his new benefit amount would be $666. If in July, 1982, the COLA increase is figured at ten percent, this increase would be applied to his new benefit amount, not the original $600. In other words, the original $666 monthly benefit plus a ten percent increase, or $732.60 per month.

An alternative is to calculate all of the recipients COLA increases on the base amount of $600 with which he started, rather than on the annually compounded base. Such a proposal would work as follows:

Retirement monthly amount	$600
1981 cost-of-living increase	11%
New monthly amount	$666
1982 cost-of-living increase	10% × $600=$60
New monthly award using base amount calculation:	$666 + $60 = $726

Instituting this approach would result in a fiscal year 1983 savings of $300 million and cumulative savings of thirteen billion dollars by fiscal year 1986.[67]

The fourth alternative proposal would be to change the date a recipient receives his annual COLA increase and align the increase with

64. *Id.*
65. *Id.*
66. The Social Security Act, 42 U.S.C. §415 (i) (l) (1976 & Supp. II 1978).
67. *Supra* note 41.

the federal fiscal year. Under current law, each recipient receives his COLA in July.[68] This proposal would change the date from July to October. To ease the shift during the first year of this change, recipients would receive a partial COLA increase in May and the remainder in October. If this change were implemented, it would result in fiscal year 1983 savings of $1.8 billion and a cumulative savings of $6.1 billion by fiscal year 1986.[69]

The fifth, and most fundamental COLA modification, would be to align the level of benefit increase to the solvency of the system. COLA would remain the policy objective, but only to the extent possible without causing financial imbalance within the system. If, for instance, the reserves over an upcoming two or three years would be expected to fall below fifteen to twenty percent, the Secretary of Health and Human Services would be required to promulgate a COLA increase that would keep the reserves at, or about, the fifteen to twenty percent level. In other words, less than a full COLA increase would be provided to keep the system solvent.

Revenue Producing Measures

So far, our discussion has focused on the benefits side. Policy changes which would result in some basic income-producing measures cannot be ignored. There are three possibilities. The first alternative is to increase the payroll tax rate, the route by which contributions come into the Social Security trust funds. Under current law, workers and employees pay a Social Security tax rate of 6.7% in 1982.[70] Congress could avoid reducing or recalculating a person's Social Security benefit by increasing the tax rate from 6.7% to 7.05% beginning in 1983.[71]

A second alternative is to immediately expand the taxable wage base. Under current law, taxes are levied on a wage base of up to $32,400 in 1982.[72] However, the wage base subject to taxation is scheduled to escalate to $46,800 by 1987.[73] If this escalation were accelerated, it would result in an immediate increase in the amount of revenue coming into the Social Security trust funds. It is important to remember, though, that while this alternative would bring in increased revenues to alleviate the program's short-term problem, it would also increase the amount of benefits due to people when they retire.

A public sector alternative, already partially in force, is to allow for

68. 42 U.S.C. §415 (i).
69. *Supra* note 41.
70. I.R.C. §§ 3101(a) and 3111(a) (1976).
71. This means that the Congress could require an increase in the social security tax, and by doing so, avoid reducing an individual's monthly retirement benefit.
72. *See supra* note 70.
73. 1982 TRUSTEES' REPORT, *supra* note 30, table A-15, Projections of index futures of the Program, 1983-87; and CONG. RESEARCH SERV., U.S. LIB. OF CONG., REPORT NO. 82-75EPW, SUMMARY OF THE 1982 SOCIAL SECURITY TRUSTEES REPORT AND SUPPLEMENTARY HISTORICAL INFORMATION 35 (1982) (prepared by David A. Koitz, Specialist in Social Legislation, Education and Public Welfare Division, C.R.S.).

short-term interfund borrowing. As part of the bill to restore the Social Security "minimum benefit," Congress authorized funds to be shifted from the Health Insurance or Disability Insurance Trust Funds to the Old-Age and Survivors Insurance Trust Fund to provide for continuing benefits through June 1983.[74] Congress could extend the interfund borrowing authority or reallocate the tax revenue entering the three funds. However, such action would only postpone the final reckoning until sometime in 1984.[75]

As for the long-term problems of the system, there are two basic approaches which Congress could take. The long-term problems of the system are primarily a function of changing demographics.[76] The baby boom of the post World War II years portends a "senior boom" by the end of this century. With the falling birth rates of the last decade, there will be fewer workers per retired person in the years ahead. As indicated earlier, while there are now 3.2 workers paying into the Social Security system to support one retiree,[77] that ratio is projected to fall to 2.0 workers per retiree by 2030.[78]

With fewer workers, less taxes will be paid into the system at just the time when more beneficiaries will seek Social Security benefits. Congress must deal with this problem through some form of financial restructuring of the system. Contrary to earlier proposals, Congress generally agrees that the necessary changes must be gradually introduced to allow Americans adequate time to plan for their retirement.

Concurrently, the system must have more built-in flexibility so as to better withstand any future economic downturns. Since benefit increases are linked to COLA rates, continuing high inflation will translate into burgeoning payments to beneficiaries.[79] It is estimated that for every one percent rise in the inflation rate, benefit payments will increase by $1.6 billion.[80] Moreover, in times of stagflation, with lagging wage increases and persistently high unemployment, payroll tax revenues entering the system do not keep pace with benefit payments.

Changing certain COLA provisions could provide the necessary flexibility in the system and should allow the build-up of sufficient reserves to counter the next century's changing demography. However, Congress must ensure in any restructuring that those recipients most dependent on Social Security checks for their income are protected. In 1979, 3.6 million older Americans were below the poverty line [81] and almost a quarter of the elderly had incomes of only 125% of the official

74. The Omnibus Budget Reconciliation Act of 1981, 22 U.S.C. §2201 (1980).
75. *Id.*
76. Speech by Senator Lawton Chiles (D-Fla.) before the U.S. Senate (Feb. 5, 1981).
77. SOC. SEC. ADMIN., U.S. DEPT. OF LABOR, OLD-AGE, SURVIVORS AND DISABILITY INSURANCE BENEFITS (OASDI) TRUSTEES' REPORT (1981).
78. *Id.*
79. *See supra* note 68 and accompanying text.
80. *See* 1981 FINANCING REPORT, *supra* note 2, at 23.
81. *See* 1982 TRUSTEES REPORT, *supra* note 30.

poverty level.[82] While Social Security is not a welfare program, those recipients with low incomes and benefits must be protected from the ravages of inflation through such off-setting provisions as the COLA components in Social Security.

The first approach is to gradually raise the retirement age from sixty-five to sixty-eight over the next ten to twenty years. Actuaries report that people are living longer now than when the program first began. This trend is likely to continue.[83] Naturally, raising the retirement age could be viewed as a "financial" solution, one that creates greater equity between generations. Yet, this is a step that each individual should be permitted to choose for himself.

The second approach is to make the Social Security benefit formula less generous in the future. Technically, this could be done in many ways. In contrast to raising the retirement age, this proposal would affect *all* beneficiaries, including disabled survivors. It would be an across-the-board measure under which the pain would be shared equally. In so doing, the amount of reduction will be relatively small and not imposed on any *single* group of beneficiaries. In the long run, however, this would diminish the overall adequacy of Social Security benefits.

PRIVATE SECTOR OPTIONS

During the last decade, Americans have been given the opportunity to prepare for retirement through such devices as Individual Retirement Accounts (IRA).[84] IRAs have given some individuals an incentive to prepare for their retirement. This approach acknowledges the fact that Social Security will never be able to meet their full economic need in retirement.

As a consequence, one of the most interesting private sector options is to allow those individuals who could afford to do so to establish a Social Security Option Account (SSOA).[85] This approach has been developed by the INA corporation.[86] A SSOA would be similar to an IRA. However, it would allow recipients to contribute up to $6,000 annually, whereas an IRA limits the annual contribution to $2,000. Under the SSOA plan, each individual who pays Social Security taxes would be allowed to contribute up to $6,000 annually. For each contribution of $1,000, an individual would forfeit one-half percent of Social Security benefits. For those persons who contribute the maximum amount, the yearly forfeiture rate would be three percent. Furthermore, persons participating in this program would be eligible for tax deductions of up

82. *Id.*
83. *Id.*
84. Saul, *Toward A More Secure Retirement: The Social Security Option Account*, NATL J., June 20, 1981, at 1139-41.
85. *Id.*
86. *Id.*

to twenty percent of the amount of income subject to Social Security taxes.

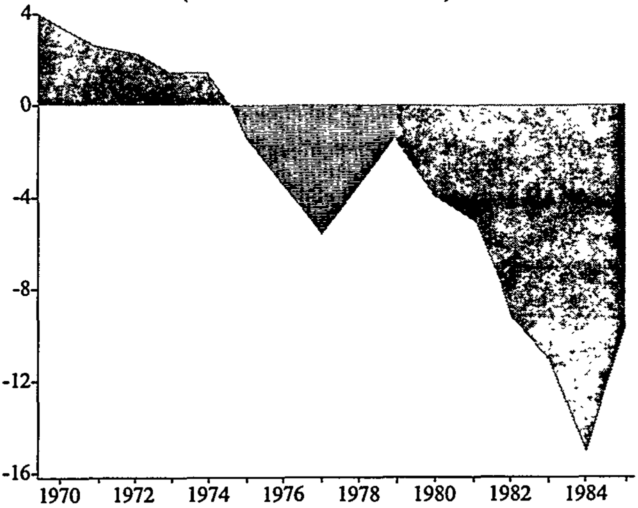
CONCLUSION

The problem which must be addressed is simple: the Social Security is running out of funds. Action must be taken to ensure that the system remains fiscally solvent. This article has outlined the options available to alleviate both the current and long-term deficiencies of the Social Security program. A realistic approach has been offered through each of the alternatives suggested. Congress must now decide which one to choose.

Figure 1.

SOCIAL SECURITY'S DEFICIT

(BILLIONS OF DOLLARS)

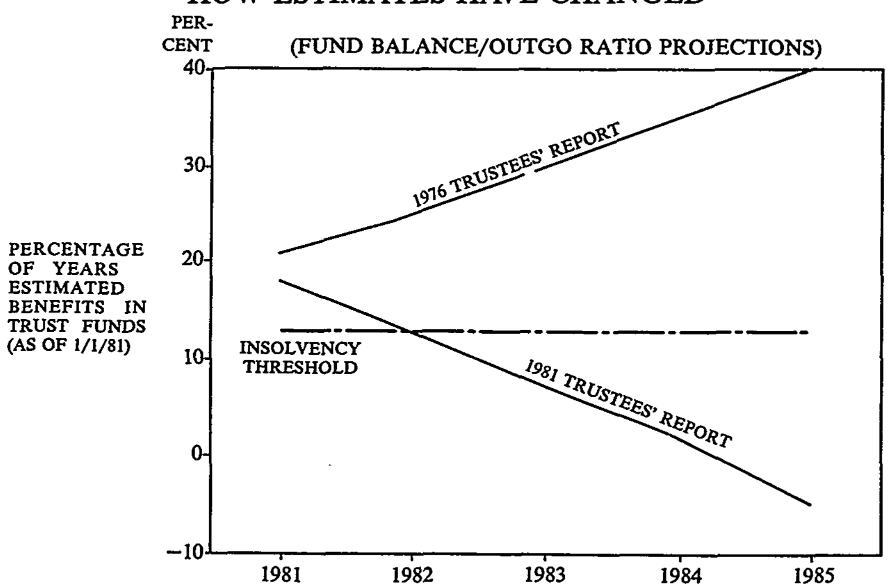


Note: 1981-1985 Based on intermediate projections for Old-Age, Survivors, and Disability Insurance.

Reprinted from *Social Security Financing and Options for the Future: Hearings before the Subcomm. on Social Security and Income Maintenance Programs of the Senate Comm. on Finance*, 97th Cong., 1st Sess. (1981).

Figure 2.

HOW ESTIMATES HAVE CHANGED



Note: Based on intermediate projections in social security trustees' reports.

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