Coverage of State and Local Government Employees

Although the National Commission believes that coverage of all persons who are in paid employment is desirable, some members do not favor mandatory coverage of employees of State and local governments.

A majority of the members is concerned about the constitutional problem of covering State and local government employees under Social Security on a mandatory basis because the Federal Government may not have the power to compel State and local governments to pay the employer share of the OASDI-HI tax. Other members believe that, regardless of the constitutionality question, the Federal Government should not do so because the two levels of government have equal roles and status. Some members point out that many State and local governments already have adequate, well-financed retirement systems for their employees, so that they do not need OASDI-HI coverage 11/; others point out that many State and local systems have serious financing problems and that protection of the benefits under such systems against inflation (and often protection against other risks) is not as adequate as under the OASDI program.

11/ A relatively small number of State and local government employees do not have either OASDI-HI coverage or public-employee retirement systems.

Benefit Provisions Primarily Affecting Women

In recent years, there has been widespread discussion as to whether the basic structure of the Social Security program should be altered in view of the changes in the role of women in our society and economy.*

Some members of the National Commission believe that there should be a comprehensive change in the program to reflect the changing role of women, for example, by instituting some form of earnings sharing for purposes of the Social Security earnings record. Simply stated, earnings sharing means that all covered earnings received by a couple during the period of marriage would be pooled and half would be credited to each of their earnings records. Some other members believed that such comprehensive changes were outside of the scope of the charge of the National Commission.

Social Security Cards

The National Commission commends a recent decision of the Social Security Administration to use banknote-quality paper for new and replacement Social Security cards. The Senate Permanent Subcommittee on Investigations estimated in June 1982 that fraud involving identification cards, of which Social Security cards are the vast majority, cost the Federal Government between $15 and $24 billion per year.

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* See additional views of Commissioner Fuller and additional views of Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper, in Chapter 4.

Chapter 3

FINANCING PROBLEMS OF THE MEDICARE PROGRAM

This chapter deals with the consideration which has been given to the financial status of the two portions of the Medicare program by the National Commission.

HOSPITAL INSURANCE PROGRAM

According to the 1982 HI Trustees Report, the HI Trust Fund is estimated to be depleted by the early part of the 1990s and possibly even by the end of this decade. Over the next 25 years, the program is anticipated, under the Alternative II-B assumptions of that report, to have an actuarial deficit that averages about 1½% of taxable payroll.

About $12.4 billion was loaned to the OASI Trust Fund by the HI Trust Fund in December 1982, as permitted by the law then in effect. Because the HI Trust Fund will be depleted at some time within the next decade, according to current estimates, the amounts borrowed by the OASI Trust Fund in 1982 should desirably be repaid to the HI Trust Fund as soon as feasible.

These future financing problems of the HI program were not addressed specifically by the National Commission, with the exception of those aspects that relate directly to the financial status of the OASDI program. Such action was taken both because of the more immediate financing problems of the OASDI program and because the recently-named Advisory Council on Social Security will be concerned exclusively with making recommendations on the Medicare program and its future solvency.

The "consensus" package described in Chapter 2 would result in some additional financial resources for the HI program, as indicated below (see text of Chapter 2 for complete description of the proposals):

Proposal	Short-Term Savings, 1983-89 (billions)	Long-Range Savings (percentage of payroll)
Cover nonprofit employees	+$1.7	+.02%
Prohibit withdrawal of State/local employees	+ .5	--
Total Effect	+ 2.2	+.02

Although the National Commission did not specifically address the future financing problems of the HI program, some members were concerned about the estimates of large future financing short-falls. The first major concern was the possibility that any excess of income over outgo of the OASDI Trust Funds during 1990-2010 could be endangered by the extensive financing needed by the HI Trust Fund during that period. The second major concern was that, by ignoring the cost of the HI program, the potential tax burden of the entire Social

Security program might not be properly assessed when making reforms in the OASDI portion of the program. Some members believe that the problem of financing the HI program is not simply a matter of providing the funds to meet the costs projected on the basis of past experience, but rather that first the matter of slowing the rate of increase in hospital costs generally should be addressed.

According to the intermediate cost estimate, the combined OASDI-HI system will develop significant annual deficits (excesses of outgo over income) beginning shortly after 1990. These deficits will become increasingly larger as time goes by. Thus, ultimately (2030-56), the combined deficits will be somewhat more than 12% of taxable payroll.* About 65% of such deficits will be caused by the HI program. In considering these estimates, it should be recognized that the underlying assumption is that hospital costs will continue to rise more rapidly than the general wage level for the next 25 years and at the same rate thereafter. In other words, they assume that mandatory or voluntary actions to control hospital costs undertaken in the next 25 years will be effective only to the extent that the growth in hospital costs as compared with the general level of wages will not be reduced below what is assumed in the actuarial cost estimates for the HI program.1/

1/ These assumptions are summarized in Table A1 of the 1982 HI Trustees Report.

* See views of Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper as to the undesirability of cost estimates for the HI program going further than 25 years into the future, in Chapter 4.

SUPPLEMENTARY MEDICAL INSURANCE PROGRAM

The National Commission did not believe that it was necessary to make any recommendations with regard to the SMI portion of the Medicare program. Its financing is -- as discussed in Appendix J -- entirely on a year-by-year basis, rather than on a long-range basis, as are the three payroll-tax-supported programs (OASI, DI, and HI). For calendar year 1982, the payments from the General Fund of the Treasury to the SMI Trust Fund are estimated to represent 77% of the total of the premium income and such payments. The financial status of the SMI Trust Fund is currently excellent.

Chapter 4

ADDITIONAL STATEMENTS

This chapter consists of additional statements of individual members of the National Commission. These statements are presented alphabetically by name of member; those which are signed onto by several members appear first.

The statements appear in the following order:

(1) Commissioners Archer, Beck, Conable, Dole, Fuller, Greenspan, Heinz, and Trowbridge

(2) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (long-range financing and issues of special concern to women)

(3) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (independent agency)

(4) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (HI cost estimates)

(5) Commissioners Dole and Conable

(6) Commissioner Archer

(7) Commissioner Armstrong

(8) Commissioner Fuller (long-range financing)

(9) Commissioner Fuller (issues of special concern to women)

(10) Commissioner Kirkland

(11) Commissioner Waggonner

SUPPLEMENTARY STATEMENT ON MEETING THE LONG-RANGE FINANCING REQUIREMENTS BY COMMISSIONERS ARCHER, BECK, CONABLE, DOLE, FULLER, GREENSPAN, HEINZ, AND TROWBRIDGE

The recommendations made in the "consensus" package fail to meet the long-range goal of providing additional financing equivalent to 1.8% of taxable payroll. The shortfall is an estimated .58% of taxable payroll. We believe that this should be derived by a delayed, slowly phased-in increase in the "normal" retirement age (the age at which unreduced retirement benefits are available to insured workers, spouses, and widow(er)s -- which is age 65 under present law).

The major reasons for this proposal are:

(1) Americans are living longer.

(2) Older workers will be in a greater demand in future years.

(3) The disability benefits program can be improved to provide cash benefits and Medicare to those between age 62 and the higher normal retirement age who, for reasons of health, are unable to continue working.

(4) Because the ratio of workers to beneficiaries is projected to decline after the turn of the century, younger generations are expected to pay significantly increased taxes to support the system in the 21st century. An increase in the normal retirement age will lessen the increase.

(5) Given sufficient notice, coming generations of beneficiaries can adjust to a later retirement age just as earlier generations adjusted to age 65.

Although we believe that greater action in this direction may be desirable, we are suggesting only enough change to produce approximately the needed .58% of taxable payroll. The recommended change would apply only to the normal retirement age. 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 reduction factors would be larger. The minimum age for eligibility for Medicare benefits would continue to be the "normal" retirement age for OASDI benefits. Disability benefits are now available under somewhat less stringent definitions for those aged 60-64. However, because some workers, particularily those in physically demanding employment, may not benefit from improvements in mortality and be able to work longer, we asume that the diability benefits program will be improved prior to th implementation of this recommendation to take into account the special problems of those between age 62 and the normal retirement age who are unable to extend their working careers for health reasons.

Under our proposal, the normal retirement age would be gradually increased --one month each year -- to age 66 in 2015, beginning the phase-in with those who attain age 62 in 2000. Beginning with those who attain age 62 in 2012, the normal retirement age would be automatically adjusted (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 as it was in 1990. The estimated long-range savings of this proposal is 0.65% of taxable payroll.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys,
Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper
(members selected by the Democratic leadership of the Congress)

Long-Term Financing and Issues of Special Concern to Women

Meeting the Remaining Long-Term Deficit

All of us supported the compromise agreement which is being recommended by a vote of 12 to 3 of the full Commission.1/ The agreement provides for fully meeting the Commission's short-term financing goal and also for meeting about two-thirds of the Commission's long-term goal--1.22% of payroll out of the 1.8% projected need.

We recommend that the remaining 0.58% of payroll deficit be met by providing additional revenues starting in the year 2010, in advance of the period when the bulk of the deficit is projected to occur. Sufficient additional revenues would be provided by an increase of less than one-half of 1% (0.46%) in deductions from workers' earnings beginning in 2010 and a like amount in employer payroll taxes (with an equal combined rate for the self-employed) or the revenue could be supplied by an equivalent general revenue contribution, or some combination of the two. For purposes of present legislation we would support putting in the law now an increase in the contribution rate beginning in

1/ Mr. Kirkland is not joining in the recommendation to extend coverage to Federal employees and has filed a supplemental statement on the issue.

2010 of 0.46% of payroll (with the employee contribution offset by a refundable income tax credit) recognizing, of course, that in the next century the Congress may prefer to raise the money in some other way and that, in fact, such a rate increase would not be allowed to go into effect unless estimates at the time of the scheduled increase showed that it would be needed.

An increase of less than one-half of 1% in the contribution rates in all probability would not mean an increase in the burden of supporting OASDI because: (1) By 2010 real wages are likely to be substantially higher than they are now; and, (2) although levied at a higher rate, the rate will apply to a smaller portion of total compensation than today if the expansion of non-taxable fringe benefits projected in the estimates actually occurs. (If such expansion fails to materialize the contribution rate increase would be unnecessary.)

In contrast to our plan for meeting the part of the long-range deficit not addressed by the compromise agreement, some members of the Commission seek to meet the remaining deficit by raising the age at which full benefits are first payable and then continuing to raise the age automatically in relation to improvements in longevity. This proposal is a benefit cut. If the age is raised to 68, benefits would be reduced by 20% relative to those received at age 65; if it is raised to age 67, the cut is 13%; and if set at age 66, the cut is 7%.

The cut would be concentrated on those unable to work up to the newly set higher age and on those unable to find jobs. It would cut protection for those now young, the very group being asked to pay in more and for a longer period of time. And an automatic provision changing the age of first eligibility for full benefits would make it very difficult for people to plan for retirement. It would also greatly complicate private pension planning. In our opinion it is unwise to try to index Social Security for all possible future changes in society. Social Security has enough indexing. Congress can act to make future changes in the long-run future as needed.

We favor the maintenance of the full range of retirement options in present law so that the program will be responsive to the great variety of occupations in the American economy and to the great variety of individual circumstances. It is one thing for example, to consider a higher age of first eligibility for full benefits for white collar workers; something else again for those required to do heavy work. The system today has the required flexibility. It provides: (1) full benefits at any age for qualified workers who have long continued total disability, (2) actuarially reduced benefits for those who apply between ages 62 and 65, (3) higher benefits for those who postpone retirement and continue to work between 65 and 70 (3% a year additional benefits under present law, to be raised to 8% during the 1990's under the Commission recommendations).

Some have argued for raising the age at which full benefits are first payable on the ground that as life expectancy increases, so will the ability to work. However two leading government authorities on health and the aging testified before the Commission that data on increased longevity carry no evidence that health improved commensurately. If anything, they said, what evidence there is indicates the contrary; more people living longer, but with more chronic illness and impairments. Moreover, recent increases in longevity may be related to retirement at earlier ages.

It is, of course, highly uncertain what the economy and the labor market will look like in the next century. Two major possibilities exist. A labor shortage may result from projected shrinkage of the proportion of persons in the 20-64 age group2/. In that event, greater market demand for the services of older people would produce greater paid-work opportunities for them. Employers would be seeking older people and the benefit increase for work after 65 recommended by the Commission would encourage older people to work. If, on the other hand, a labor shortage does not materialize, raising the age of first eligibility for full Social Security benefits would force a large number of elderly persons into early retirement with lower benefits than current law provides.

We should not cut benefits in an attempt to keep older persons at work. Instead we should recognize and remove the impediments that stand between older workers and employment. Most important of all, economic arrangements should

2/ A labor shortage would result only if the relative reduction in the working age population were not offset by productivity improvements.

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favor full employment and, then, the voluntary approach -- the incentives prepared by the Commission -- will have a chance to work. Social Security benefits are not so large as to cancel the lure of good wages. The best medicine for Social Security is full employment and economic growth, not benefit cuts.

Meeting Problems of Special Concern to Women

Since enactment of the Civil Rights Act of 1964, Federal law has sought to prevent and redress unequal treatment of women. Despite those efforts, substantial inequalities persist and much remains to be done.

In general, gender-based discrimination has been eliminated from the OASDI program through legislative change and court decisions, but in recent years there has been a growing concern regarding the extent to which the Social Security system has adapted to the changed roles of women in society and the economy. The labor force participation rate for married women has almost doubled in the last 25 years. Over 65% of all women aged 20 to 54 are now in the labor force. In addition, the divorce rate has increased significantly. Two decades ago, there was one divorce for every four marriages; in 1976 that rate had risen to one divorce for every two marriages.

Although the scope and urgency of economic considerations appropriately consumed most of the time of the Commission, it did give attention to some of the problems that currently exist for women in Social Security coverage. Four specific recommendations were made for important changes affecting certain groups of widows, divorced women and disabled women.

Social Security has indeed given extensive protection to women and men. It provides benefits for 91% of women over 65 today (compared to 10% of women who received benefits from a private pension system in 1980). Nevertheless, the significant changes in women's roles in society and the economy have caused many inequities and unintended results for women beneficiaries.

Today, the majority (65%) of working age women are in the labor force; yet their benefits may be greatly reduced if they leave the labor force for a period of time for homemaking or child-caring. Also lower family retirement and survivor benefits exist for 2 wage-earner couples than for 1 wage-earner couples with the same family earnings history (although there are some advantages to having benefits based on one's own earnings that are partly offsetting).

Homemakers have no individual coverage or eligibility to Social Security and no credits of their own on which to build with later employment because of early widowhood or any other reason. Divorced women may be severely affected by the arbitrary 10-year duration-of-marriage requirement and the inadequacy of the 50% dependent benefit for their independent economic needs. Currently, the benefit for the divorced woman depends upon the actual retirement of the former spouse; however, the Commission has recommended a change which will correct this problem. Disability protection exists only for women who remain quite continuously in the labor force and not at all for homemakers. It is often lost to working women during a period of time spent in the home.

Since the introduction in 1976 by Representative Martha Keys and Representative Don Fraser of legislation to implement the concept of earnings sharing, many have believed this to be the best solution to these anomalies. Earnings sharing is a recognition of marriage as an economic partnership with equal respect given to the division of labor chosen by each couple. It accords the right of each individual to a retirement income based on half of the total retirement credits earned by the couple during their marriage. This is similar in concept to the sharing of income in the joint tax return of a married couple. Working women would have a continuous record of Social Security credits when they retire instead of zero credits for years spent in the home. It would respond to, and recognize, the economic value to the couple of full-time work in the home by either spouse.

Earnings sharing has been proposed in many forms and was recommended for consideration by both the 1979 Advisory Council on Social Security and the 1980 President's Commission on Pension Policy. Obviously, such a comprehensive change in structure requires careful development of a detailed proposal and thorough analysis of its impact. There are many technical and administrative questions to be worked out and special consideration must be given to continued strong protection for the family against death or disablement of its primary wage-earner. These are not insurmountable problems, however. We believe that earnings sharing is the most promising approach to the solution of Social Security problems of special concern to women and we urge renewed efforts to develop a comprehensive proposal based on this concept.