

News from Senator

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FOR IMMEDIATE RELEASE  
January 26, 1983

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STATEMENT OF SENATOR DOLE ON S. 1  
"THE SOCIAL SECURITY AMENDMENTS OF 1983"

Today I introduce with Senators Moynihan, Heinz, Baker, Stevens, Laxalt, Danforth, Kennedy, and Bentsen, S.1, "The Social Security Amendments of 1983." This legislation would implement the bipartisan reforms recommended by the National Commission on Social Security Reform. In my view, the consensus reached by the National Commission holds the potential for marking the end of a bitter period of political partisanship. Republicans and Democrats, the House and the Senate, Congress and the Executive all demonstrated the degree of cooperation so essential for enacting a responsible social security financing bill.

Just a year ago, prospects for a bipartisan consensus were remote. The National Commission was created by executive order on December 16, 1981. At that time, the social security program had been embroiled in political controversy for nearly a year. The system moved closer to insolvency as proposals for financial reform were subjected to partisan political attack. The 15 individuals selected as commission members embodied widely divergent views, creating further concern that anything could be accomplished. To outsiders at least, these members probably seemed incapable of reaching any true bipartisan consensus.

Accomplishments of the Social Security Commission

On January 15, 1983 the National Commission on Social Security Reform accomplished what some said was impossible. With the cooperation and approval of President Reagan and House Speaker O'Neill, the Commission forged a consensus reform package with broad bipartisan support. As is clear from the twelve members who supported the package, both political parties were represented as were the interests of the elderly, organized labor and business, and the general taxpayers. Along with myself and Senators Moynihan and Heinz, the other commission members who support these recommendations are: Representatives Barber Conable and Claude Pepper, former Commissioner of Social Security Robert Ball, Robert Beck, Chairman of the Board and Chief Executive Officer of Prudential Insurance Company, Mary Falvey Fuller, Management Consultant and member of the 1979 Advisory Council on Social Security, Alan Greenspan, Chairman and President of Townsend, Greenspan, and Company, Martha Keys, Former Representative in the 94th and 95th Congresses, Lane Kirkland, President of the AFL-CIO, and Alexander Trowbridge, President of the National Association of Manufactures.

Agreeing to the essential provisions of a social security solution was not the only accomplishment of the National Commission. It should be noted that the Commission also reached unanimous agreement on the size of the short- and long-term deficits in the social security cash benefit programs (old-age and survivors insurance and disability insurance). In concrete dollar terms, the Commission quantified the seriousness and the urgency of the financing problem. Remember that only a year ago, partisan lines had been drawn between those who did and did not believe there was any financing problem at all before the year 2000.

In addition, the National Commission provided a valuable forum for diverse views on social security. With the able leadership of Chairman Alan Greenspan and with the expert assistance of Executive Director Robert Myers, members of both political parties were able to work together in studying the social security financing problem and options for financial reform. In recent weeks, we engaged in intensive negotiations which were, to a large extent, free of the political partisanship that so seriously damaged efforts for responsible reform in 1981.

### Major Provisions

The legislation we introduce today reflects the basic agreements reached by the 12-member majority. It closes the short-term deficit identified by the commission, and goes a long way toward closing the long-range deficit. It requires concessions from all of the parties who have a stake in social security--current and future beneficiaries, taxpayers, and government employees who do not now contribute to the system. While no one member is happy with every specific recommendation, the important fact is that consensus was reached on how to save the system.

First, the bill would expand coverage. Newly hired federal employees, the President, Vice President and members of Congress, and employees of non-profit organizations would be covered by social security on a mandatory basis. State and local governments would no longer be granted the privilege of opting out of the system. To deal with the problem that will exist as long as coverage is not universal, windfalls will be eliminated for people who earn disproportionately large benefits under social security because of long periods in non-covered employment.

Second, on the benefit side, the annual cost of living adjustment would be delayed by six months, from July to January. To protect the needy elderly during the transition to the new payment schedule, the income disregard under the Supplemental Security Income (SSI) program would be increased from \$20 to \$50 per month. This would allow the income of a social security recipient on SSI to rise by \$30 a month beginning in July even though his or her COLA is delayed. Also, for beneficiaries with high incomes, half of social security benefits would be included in taxable income. This would apply to individuals with adjusted gross incomes above \$20,000 (\$25,000 for couples).

On the revenue side, part of the payroll tax increases now scheduled by law would be accelerated. The 1985 increase in the OASDI rate would take place in 1984, and part of the 1990 increase would take place in 1988. There would be no payroll tax increases, however, over and above those already scheduled to take place in current law. Also, a refundable income tax credit would exactly offset the increase in the employee's tax in 1984.

For the self-employed, the payroll tax would be increased so as to equalize his or her contribution to the social security trust funds with that of workers and their employers. The OASDI tax on the self-employed (now about 1.5 times the employee's tax) would be made equal to the combined employee-employer rate, with half of the tax made deductible from federal income taxes as a business expense.

To help stabilize the financial condition of social security, this bill includes a provision which would trigger a new method of indexing benefits if reserves are critically low. Beginning in 1988, if reserves fall below 20% of annual outgo, the annual COLA would be based on the lower of the increase in wages or prices. As reserves begin to accumulate again, a "catch-up" provision would repay beneficiaries for any prior reduction in their benefit increases. This would help prevent insolvency when prices grow more rapidly than wages, as they have in the last five years.

There are also provisions included in this bill which would increase outlays somewhat, but they improve the equity of the system considerably for women and for the elderly who continue to work. Benefit adequacy is improved for widows and widowers, and for disabled widows and widowers. Eligibility requirements are eased for divorced widows and widowers, and for divorced disabled widows and widowers. For the elderly who continue to work and who do not now receive an actuarially fair increase in benefits when they delay retirement, the delayed retirement credit would be increased from 3% to 8% a year.

Finally, two accounting changes would be made to improve the treatment of the social security trust funds. First, the trust funds would be reimbursed for all foregone taxes and interest on account of gratuitous wage credits provided to people with military service. The trust funds are not currently reimbursed until the additional benefits are paid. Second, the trust funds would be credited with the value of all checks which have remained unnegotiated for a year or longer. Presently, such checks represent a drain on the trust funds even if they are never cashed.

#### Other Recommendations

In addition to these provisions, which constitute the bipartisan consensus, this bill contains three other recommendations made by the National Commission. These were approved unanimously in November. First, trust fund investment procedures would be revised so as to improve the level of public understanding. In the future, any excess reserves would be invested on a month-to-month basis at a rate equal to the average interest rate paid on long-term government bonds. Second, two public members would be added to the Social Security Board of Trustees. Presently, the Board is composed of the Secretaries of Treasury, Labor, and Health and Human Services. Third, salary reductions made under salary-reduction plans qualifying under Section 401 (k) of the Internal Revenue Code would be included in taxable wages for purposes of OASDHI. This change should prevent future decreases in OASDHI tax income and benefit credits that might otherwise occur from increased use of section 401 (k) plans.

#### Refinements May Be Necessary

Together, these provisions form a consensus package that carefully balances many interests. To the greatest extent possible, therefore, this must be considered as a package. Commission members recognize, however, that many details remain to be worked out within the legislative process. Some of the specifics are in need of improvement; some are in need of refinement.

For example, the way benefits are taxed in this bill would create a "notch". People with incomes below the thresholds would pay no taxes at all on their social security benefits, whereas individuals with just a dollar of income over the thresholds would pay taxes on a full 50% of their benefits. Certainly, there will be strong support for correcting this anomaly by phasing in the amount of benefits subject to taxation in some way.

Other revenue provisions of the legislation also raise a number of practical and technical issues that will no doubt have to be addressed as we move through the legislative process. To ensure that tax is paid on taxable social security benefits, for example, the bill includes a provision for information reporting to the IRS and the social security beneficiary on the amount of benefits paid. It should be possible to implement this system without causing undue concern to beneficiaries, the vast majority of whom will not owe income tax on their benefits. This could be done by a clear and conspicuous instruction on the reporting form stating that benefits are taxable only for those with income

above the threshold levels. Still, we will want to be sure that this system is effective and fair, and we ought to be open to other options.

Another area that may need further exploration is the mechanism for estimating the amount of income tax revenues due to the trust funds under the proposal to tax benefits, and the system for allocating those revenues to the trust funds. Under the bill, the Treasury Department is to estimate the revenues due to the trust funds, as was recommended by the National Commission. These estimates would be made on a preliminary basis, the funds allocated to the trust funds, and a later reconciliation made based on actual tax return information as collected in the IRS "Statistics of Income". The goal is to ensure that there is a clear, objective standard for allocating income tax revenues to the trust funds in connection with the taxation of benefits, so that we have a precise reconciliation of the actual amounts due to the trust funds. That way we also guarantee precision in determining the level of reserves in the trust funds.

We also recognize, of course, that other technical issues will have to be resolved. The bill as drafted makes clear that we do not want to tax benefits that may be paid retroactively with respect to a period before the date this legislation takes effect. At the same time, benefits that may be "bunched" in a single year due to payment following a retroactive determination of eligibility ought not to trigger excessive tax liability in the year in which the benefits are paid. Existing income tax averaging rules may be sufficient to deal with this problem but it is possible that a special rule would be helpful.

Also, I am aware that there are concerns about the self-employed tax. Is a deduction or a tax credit the most appropriate offset for the higher tax? Should the self-employed receive the tax credit provided to employees in 1984? I can assure interested parties that we will receive testimony in the Finance Committee hearings and we will address these issues when the legislation is marked up.

The delay in the social security COLA raises questions for other programs. For example, when the social security COLA is delayed, the annual increase in Supplemental Security Income (SSI) payments is also delayed. This was not recommended by the National Commission, but instead results from the way the SSI title of the Social Security Act is linked to the OASDI title. We in Congress will have to make an explicit decision in this regard. A similar problem is created in the SMI (Supplemental Medical Insurance) program. We will have to consider whether the increase in the SMI premium should continue to take place each July, as it would under this legislation, or whether it should be synchronized with the OASDI increase.

Finally, it should be noted that there were unique problems in the drafting of the equity provisions. These problems resulted from well-known gender-based distinctions now in the law. For example, the Commission agreed to allow benefits to be payable to divorced widows and widowers who remarry. Divorced widowers benefits are not now in the law, however; they are paid under a Supreme Court ruling. By liberalizing the treatment of women, therefore, the treatment of men is liberalized indirectly. This type of problem will be corrected by later legislation designed to eliminate gender-based distinctions in the Social Security Act.

I feel confident that these and any other problems that may become apparent as the legislation is carefully considered, can be handled within the normal legislative process without jeopardizing the basic bipartisan agreement. With the essential elements of a consensus bill before us, we in Congress are in a strong position to hammer out these details and enact legislation in the early months of the 98th Congress. Prompt action is

essential not only for the peace of mind of beneficiaries and taxpayers, but also because of the real solvency constraint we face.

#### Financing Problem Makes Prompt Action Essential

As almost everyone is by now aware, the social security retirement program will not be able to pay benefits on time beginning in July. In fact, were it not for the interfund borrowing authorized in 1981, the retirement program would have stopped meeting its monthly payments on time back in November. With the authority for interfund borrowing now expired (as of December 31, 1982), July is when all of the money borrowed from the other two trust funds--\$17.5 billion in total--finally runs out.

Reauthorizing interfund borrowing can not help the retirement program for long. The retirement program is so large--accounting for 73 percent of all social security spending--and its borrowing demands are so heavy, with interfund borrowing the rest of the system could be insolvent before the year is out. The Social Security Board of Trustees, the Congressional Budget Office, and a wide variety of private actuaries and economists all agree that substantial additional trust fund revenues must be provided or savings must be achieved if the social security system is to remain solvent through the remainder of this decade.

How much the system requires in savings or revenues depends on how we expect the economy to perform. The National Commission settled on \$150-\$200 billion between now and 1989, as the amount required to keep OASDI solvent through 1990. (More would be required to fund the Medicare deficit.) This amount was not judged to provide a comfortable reserve margin under any economic circumstances, but enough to see the system through the kind of economic circumstances we have experienced in the past 5 years or so. If the economy performs better, substantial reserves could begin to accumulate by the end of the decade. According to the social security actuaries, this legislation would reduce the short-range deficit by \$168 billion.

While it is the short-term financing problem that is immediately pressing, the long-term financing problem is equally serious, if not more so. The Social Security Board of Trustees reports that the combination of the baby-boom generation retiring and gradually lengthening lifespans will lead to a dramatic increase in the cost of social security after the turn of the century--about 55 percent between 2005 and 2035 alone. In the year 2035, when the young people of today are retiring, the actuaries expect that the elderly population will account for 21 percent of the overall population (as compared to 11 percent today), and the typical 65 year-old will have a life expectancy of 17 years (as compared to 14.5 years today). The effect will be to decrease the ratio of taxpayers to beneficiaries from just over 3:1 today to 2:1, helping to generate the enormous long-term deficits we now foresee.

According to the social security actuaries, the long-term deficit in the non-medicare social security programs is 1.8 percent of taxable payroll. This is the figure adopted by the National Commission. To translate, it means that over the next 75 years, the actuaries project that benefits will outstrip payroll tax income, in 1983 dollar terms, by about \$25 billion per year, or \$2 trillion in total. (Including medicare, the long-term deficit has been estimated at 7.01 percent of taxable payroll, or nearly \$8 trillion in total.)

The measures included in the bipartisan consensus would meet two-thirds of the long-range OASDI deficit, reducing it by 1.22 percent of taxable payroll. I am proposing an amendment which would close the remaining deficit by gradually increasing the retirement age for people retiring after the year 2000.

The Time for Action is Now

We have a big job ahead of us in Congress. We face many difficult decisions as to the details of the legislation, and the adequacy of the measures proposed. As mentioned, the balance of the long-term deficit remains to be addressed. In my view, a balanced solution to this problem will involve bringing the cost of social security into line with the ability of our working population to finance the system. The tax burden is already heavy, and the confidence of young people critically low.

The American people--the 36 million people receiving benefits as well as the 116 million working people who support the system--deserve more than another "quick fix" that holds the system together until the next crisis comes along. They deserve the speedy consideration of this bipartisan package of recommendations. Confidence in the long-term viability of social security will be restored only by enacting measures that put the system on a sound financial footing and do so without imposing an unrealistic tax burden on present and future workers.

Within a matter of weeks, the House Ways and Means Committee and the Senate Finance Committee will begin the task of weighing S.1 and other options and then drafting social security financing legislation. Hearings will begin in the Ways and Means Committee on February 1 and in the Finance Committee on February 15. Chairman Rostenkowski and I are firmly committed to seeing that the essential elements of this reform package--as endorsed by President Reagan, Speaker O'Neill, Majority Leader Baker and others--are adopted by the Congress and enacted into law by May. Moving quickly to shore up the nation's largest domestic program is in all of our interests.