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SOCIAL SECURITY

The term "social security" is used in the United States to mean a group of social insurance programs developed by the federal government to provide income security for persons in their old age, for disabled workers, and for workers' survivors in cases of death. Specifically, social security embraces the following programs: (1) Old-Age and Survivors Insurance (OASI), first established under the Social Security Act of 1935 as old-age insurance and expanded in 1939 to include survivors, which provides cash benefits for retired workers and their eligible family members and for survivors of insured workers; (2) Disability Insurance (DI), enacted through the 1956 amendments, which provides cash benefits for disabled workers and their eligible family members; and (3) Medicare, established in 1965, which helps pay for the costs of hospital and medical care for eligible elderly and disabled persons.

Through amendments to the original legislation, coverage and benefit levels have been liberalized over the years. Virtually all jobs are now covered by social security. More than 36 million persons receive some type of social security benefit. Ninety percent of elderly households have social security income (Grad, 1984). (An elderly household is one that is headed by an elderly person and in which at least one elderly person receives social security benefits under either Old-Age Insurance or Survivors Insurance.) The United States is spending about 5 percent of

its Gross National Product (GNP) for Old-Age, Survivors, and Disability Insurance (OASDI) and 2 percent for Medicare (Social Security Administration, 1983).

The financial impact on beneficiaries, especially the elderly, has been phenomenal. Many elderly persons would have been poor had it not been for social security. However, because of short-term economic pressures and long-term demographic shifts, social security programs have been under close scrutiny in recent years. Policies to curb future expenditures have increasingly been adopted since the mid-1970s.

Principles and Provisions

Social security is intended to provide benefits as a matter of right without means or income tests. Compulsory contributions by workers and their employers are pooled to help workers defray the costs of meeting social and economic hazards.

Benefit provision embraces two important principles: (1) individual equity, relating benefit levels directly to beneficiaries' prior earnings covered under social security; and (2) social adequacy, providing beneficiaries who had been lower earners with benefits that replace a higher percentage of prior earnings than that received by beneficiaries who had been higher earners. Striking a balance between these two opposing principles is an ongoing concern of policymakers.

For many years, the principle of pay-as-you-go financing has been followed. That is, financing benefits depends on the federal government's power to tax each generation of workers to pay current beneficiaries. With a few exceptions, the system is funded on the contributory principle and does not rely on general revenue.

To be eligible for OASI benefits, workers must be either *fully insured* or *currently insured*. Workers become fully insured by earning a specified amount of "work credit," which is calculated in quarters of coverage. In 1986, employees and self-employed workers received one quarter of credit for each \$440 of covered annual earnings, with no more than four quarters being credited to an individual in one year.¹ The amount of earn-

¹ Certain types of earnings are not covered by social security. Consult the Social Security Administration for specific information.

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ings needed to gain a quarter of coverage is scaled to the national average wage and will increase as the average wage increases.

The total work credit required for eligibility depends on the claimant's age. A person who reached age 62 in 1986 needed 35 quarters of work credit to qualify for retirement benefits. Workers who became 62 in subsequent years needed proportionally larger amounts of credit, up to a maximum of 40 quarters for workers who would become 62 in 1991 or later. The normal retirement age (NRA) for a worker, spouse, or widow(er) is currently 65; it will increase to 67 by the year 2022. The NRA is the age at which eligible persons can claim benefits without actuarial reductions.

Although the preceding stipulations are relatively simple, the social security regulations are highly complex, as demonstrated in the balance of this discussion of eligibility requirements. The regulations are also subject to revision, and readers should consult the Social Security Administration for the most recent provisions.

Currently insured status is achieved when a worker has acquired 6 quarters of coverage in the 13-quarter period ending with the calendar quarter of death, disability, or becoming 62. This status provides benefits for a worker's surviving children and the mother or father caring for them, plus a lump-sum payment of \$255 for the deceased worker's burial expenses. Burial expenses are paid only if a surviving spouse was living with the deceased worker at the time of death or a spouse or child is eligible for immediate survivor benefits. Also, the currently insured status entitles insured workers and their auxiliaries (or eligible family members) to Medicare protection when afflicted by end-stage renal disease. Auxiliaries, who are beneficiaries other than primary beneficiaries, include child, wife, husband, widow, widower, widowed mother, widowed father, disabled widow, disabled widower, disabled child, and dependent parent.

To be eligible for disability benefits, the worker must have not only fully insured status, but also disability insurance status. This requires that workers age 31 or over have earned a minimum of 20 quarters in covered employment in the 40 quarters before the onset of disability. Those aged 24-31 must have coverage credit for half the quar-

ters earned between age 21 and the onset of disability; those under 24 must have coverage credit for 6 of the 12 quarters earned before becoming disabled. Those disabled by blindness need only fully insured status.

Benefits for each type of beneficiary derive from the primary insurance amount (PIA), which is obtained in a two-step process. First, the Social Security Administration (SSA) calculates the worker's average indexed monthly earnings (AIME). To obtain the AIME, the taxable earnings for each year 1951 and after are indexed, or adjusted, to the average wage level in the second year before age 62, prior disability, or death. Later earnings are not indexed. The computation period is equal to the number of years elapsed after 1950 (or age 21, if later) through age 61 (or the year before the year of prior disability or death), minus 5 "dropout" years. Fewer dropout years apply to workers disabled at a young age.² SSA then picks the years with the highest earnings during the computation period. If higher earnings are made in any year outside the computation period, such higher earnings can replace lower earnings made in any year during the computation period. These earnings are then summed and divided by the number of months in the computation period; the result is the AIME. The computation period for a person aged 65 in 1986 is 27 years. For a person becoming 65 in 1994, it will be 35 years, the maximum number of years required for computation.

The PIA is then calculated on the basis of the AIME. For persons retiring at age 62 in 1986, the PIA is based on the following percentages of the AIME:

$$\begin{aligned} \text{PIA} &= 90\% \text{ of the first } \$297 \text{ of the AIME} \\ &+ 32\% \text{ of the next } \$1,493 \text{ of the AIME} \\ &+ 15\% \text{ of the AIME in excess of } \$1,790 \end{aligned}$$

These dollar amounts (or bend points as they are called) are adjusted each year to account for increases in average wages. Benefits for

² For workers who become disabled at age 46 or younger, a correspondingly fewer number of dropout years applies: age 42-46, 4 such years; 37-41, 3; 32-36, 2; 27-31, 1; and under 27, none. Persons becoming disabled at age 36 or under and caring for a child under age 3 can increase the number of dropout years by 1 for each child-care year, up to a total of 3 dropout years.

workers retiring at age 62 equal 80 percent of the PIA, or a smaller percentage as the NRA increases. Those who retire between age 62 and the NRA have a pro rata actuarial reduction. Benefits for those retiring at the NRA (currently 65) will be their PIA adjusted for cost-of-living increases occurring the year the worker reaches age 62, and after.

If a retired worker has eligible family members—aged spouse, children, or a spouse taking care of a child under 16 or disabled before 22—each auxiliary receives benefits equivalent to 50 percent of the PIA. However, spouses claiming auxiliary benefits before the NRA down to 62, have an actuarial reduction, unless an eligible child is present. Also, when spouses receive a pension based on their own federal, state, or local governmental work not covered by social security, social security benefits are reduced by an amount equal to two-thirds of the public pension. Benefits for all eligible family members together may not exceed the maximum family benefit, which ranges from 1.5 times the PIA to 1.88 times the PIA, depending on the AIME.

Widows or widowers of insured workers are entitled to 100 percent of the benefits their spouses would be receiving if they were alive, provided the widow(er)'s benefits are claimed at the NRA or later. Benefits claimed before that age are actuarially reduced. The rule regarding public pensions applies to surviving spouses as well.

When the insured worker dies leaving unmarried children under age 18 (19 if in elementary or secondary school), such children and the surviving spouse caring for a child under age 16 receive survivor benefits. Each eligible survivor is entitled to benefits equal to 75 percent of the PIA, but the maximum family benefit rule applies. When the youngest child reaches age 16, benefits for the surviving spouse cease. However, if any child has a disability originating in childhood (before age 22), benefits for the child and caretaker parent continue without an age limit. In addition to monthly survivor benefits, a lump-sum payment of \$255 is provided for burial expenses, as long as there is a person eligible for immediate survivor benefits or a spouse who was living with the deceased worker at the time of death.

To receive disability benefits, a worker must be unable to engage in any substantial

gainful activity (SGA) because of a severe physical or mental impairment that is expected to last for at least 12 months or to result in prior death. Education, work experience, and age are taken into account in determining disability. DI beneficiaries must accept rehabilitation services offered by state rehabilitation agencies if they are likely to be successful.

Eligible disabled workers are entitled to monthly benefits equal to the PIA. Eligible children and the spouse caring for a child age under 16 or disabled before age 22 are each entitled to 50 percent of the PIA. When disabled workers receive a pension from any noncovered work, social security benefits are reduced by an amount equal to two-thirds of such pension; the rule of maximum family benefit applies here as well, although it is defined differently (lower) than for OASI. Disability benefits also may be reduced if a disabled worker receives workers' compensation benefits for an occupational injury or disease or receives disability benefits under practically any governmental program.

Unless they recover medically from their disability, the disabled are allowed to continue receiving benefits up to nine months while testing their ability to work. Benefits are not terminated until the second month following the earliest month after this trial work period, in which the individual (1) engages in SGA (that is, earns more than \$300 a month in 1986, or \$650 if blind) or (2) is determined to be able to engage in SGA.

There are earnings restrictions (called the earnings test) for social security beneficiaries, except disabled worker beneficiaries to whom the rule regarding SGA applies instead. Beneficiaries aged 65 to 69 can earn up to a certain amount (\$7,800 in 1986) without having their benefits reduced. On earnings exceeding this amount, there is a 50-cent benefit reduction for each dollar earned. For beneficiaries younger than 65, a lower exempt amount applies (\$5,760 in 1986). The exempt amounts are automatically adjusted based on increases in average wages. For those age 70 and older, there are no earnings restrictions. Excess earnings by insured workers affect not only their own benefits but also their dependents' benefits, but excess earnings by auxiliaries affect only their own benefits. Generally, benefits are adjusted each year for cost-of-living increases.

Medicare. Medicare has two parts: Hospital Insurance (HI) and Supplementary Medical Insurance (SMI). HI represents Part A of Title XVIII of the Social Security Act; SMI, Part B.

Hospital Insurance. Covered employments are the same for this program as for OASDI, except that all federal employees are covered and not merely those hired after 1983. The following categories of persons are eligible for HI benefits: (1) all persons 65 and over who are eligible for cash benefits either under OASI or the Railroad Retirement system, (2) all disabled beneficiaries, that is, disabled workers, disabled widows and widowers 50 and over, and insured workers' adult children 18 and over whose disability originated before age 22, and (3) insured workers and their families who need dialysis or a kidney transplant. There is a 24-month waiting period for disabled beneficiaries. HI benefits may continue for three years after disability cash benefits stop in those cases where there has been no improvement in the person's medical condition, but he or she has been able to engage in SGA.

Under HI, four types of benefits are provided: hospital benefits, skilled nursing facility benefits, home health services benefits, and hospice benefits. Hospital insurance benefits include services and supplies normally required for inpatient hospital care, including room and board, operating facilities, laboratory tests and Xrays, drugs, dressings, general nursing services, and the services of interns and residents in training. Excluded are the services of private duty nurses or hospital-employed specialists, such as radiologists, anesthesiologists, and pathologists. The program pays only the cost of semiprivate accommodations, unless private accommodations are warranted medically.

HI covers the cost of hospital care services up to 90 days in a single "spell of illness," meaning the period beginning with the first day of hospitalization and ending after the insured has not been an inpatient in a hospital or a skilled nursing facility for 60 consecutive days. In addition, each insured person has a "lifetime reserve" of 60 additional benefit days.³ The patient is required to

pay a deductible (\$492 in 1986). Then HI pays in full for the first 60 days of hospital care. After that the patient pays a coinsurance of a stipulated amount (\$123 in 1986, equivalent to 25 percent of the initial deductible) for each day of hospitalization up to 30 days. A patient using part or all of the lifetime reserve has to pay coinsurance at the rate of 50 percent of the initial deductible. HI covers only up to 190 days of inpatient care in a psychiatric hospital during the lifetime of the beneficiary.

In addition to hospital care benefits, HI covers up to 100 days of care in a skilled nursing facility during a spell of illness. This must be preceded by at least 3 days of hospitalization, and the admission must occur within 30 days after hospital discharge. There is no deductible, but there is coinsurance after the first 20 days in a spell of illness (\$61.50 in 1986).

To receive home health services, the insured must be under the care of a physician, but prior hospitalization is not necessary. Examples of these services are visiting nurses' care and physical, occupational, or speech therapy. There is no limit on the number of home visits; nor is there a deductible or coinsurance.

Most service providers participating in HI are paid through intermediaries contracted by the Health Care Finance Administration. This agency is responsible for administering both HI and SMI.

Supplementary Medical Insurance. This program helps pay the costs of certain medical services and supplies, principally physicians' fees, not covered by HI. All persons in the country, regardless of whether they are under HI, choose whether they wish SMI coverage. Participants enroll at certain periods stipulated under the law and are required to pay a stipulated monthly premium (\$15.50 in 1986), which generally increases each year at the same rate as OASDI benefits. (In 1984-1987, this is overridden by a requirement that the premium must meet 25 percent of the program's cost.)

SMI is designed to supplement HI health care services. It helps pay for physicians' services provided in the home, hospital, or office. In addition, it helps pay for pharmaceuticals given as part of a physician's services that cannot be self-administered, diagnostic X-ray or laboratory tests, surgical dressing and devices, the purchase

³ Special benefit periods apply to hospice care: HI pays for a maximum of two 90-day periods and one 30-day period.

or rental of durable medical equipment, ambulance service, and prosthetic devices. It may be used for home health services provided by a certified home health agency.

Each year, the beneficiary pays an initial deductible of a stated amount (\$75 in 1986) and thereafter coinsurance of 20 percent of the recognized charges for services and supplies allowed under the law. SMI pays the rest. Physicians participating in the program and taking assignments are paid, through carriers, for their services on the basis of recognized charges, taking customary and prevailing charges into account. When the physician does not take an assignment, SMI pays the beneficiary, who in turn must pay the physician whatever he or she charges.

Financing. To finance OASDI and HI, the federal government levies payroll taxes on employees, employers, and the self-employed, in covered employment, up to the maximum taxable earnings (\$42,000 in 1986). The tax rate for employees and employers is the same (7.15 percent in 1986), and it is twice that rate for the self-employed.⁴ Under current law, the tax rate is scheduled to rise in 1986, 1988, and 1990. Payroll taxes are channeled, according to statutory allocation rates, into the OASI Trust Fund, the DI Trust Fund, and the HI Trust Fund. The SMI Trust Fund is maintained by monthly premiums from SMI beneficiaries and by general revenue contributions. These separate funds pay for their respective types of benefits and related administrative costs.

When SMI came into being, the premium rate and the per capita rate of the contribution from general revenue were the same. However, since 1972 the premium rate has been allowed to rise only according to the rate of increase in social security benefits. Because health care costs have increased faster than general living costs, the proportion contributed from general revenue has steadily risen, although legislation froze it for

the years 1984–1987. Currently, only one-fourth of the cost of SMI benefits is paid for by the elderly from their premiums, one-sixth in the case of SMI benefits for the disabled. The rest is borne by general revenue.

Income of the Elderly

Liberalization of coverage and benefits under social security, the spread of private pensions, and changing patterns of labor force participation have transformed the level, source, and share of income received by the elderly. During the peak of the Great Depression, as many as two-thirds of the elderly depended on public assistance, private charity, or support from friends and relatives. Those who were self-sufficient drew their income from earnings, assets, or property, or government or private pensions (Shearon, 1938).

The picture is quite different now. The rate of labor force participation among the elderly has steadily declined, and social security benefits and private pensions are becoming increasingly significant sources of income. Public assistance and private charities are much less important sources. Currently, the sources of the income of the elderly are as follows, in the aggregate: 40 percent are derived from social security and railroad retirement; 13 percent, from other governmental or private pensions; 18 percent, from earnings; 25 percent, from asset income; 1 percent, from public assistance; and 2 percent, from other sources (Grad, 1984).⁵ Primarily because of large increases in social security benefits during the late 1960s and 1970s, the income of the elderly in relation to that of the nonaged improved markedly. As a result, the 1982 official poverty rate among the elderly was, for the first time, lower than the rate among the nonaged (U.S. Senate Committee on Aging and the American Association of Retired Persons, 1984). In addition, research findings indicate that, on the basis of per capita household income, the elderly have achieved living standards comparable to those of the nonaged (Danziger et al., 1984a and 1984b; Hurd & Shoven, 1982).

The impact of social security on the economic well-being of the elderly can be measured more precisely by looking at the

⁴ The self-employed are allowed to claim a tax credit of 2.0 percent in 1986–1989. After 1989 the self-employed and employees will be treated much the same way; the former will pay exactly twice the rate of the latter but be allowed to take 50 percent of these taxes as a deduction for income tax purposes.

⁵ Figures do not add up to 100 percent because of rounding.

proportion of earnings lost because of retirement, which social security benefits replace. Taking married couples as an example, social security benefits replace, on the average, 45 percent of the preretirement earnings. The replacement rate is greater than the median for low-wage couples and less than the median for high-wage couples. Taking other pensions into account, the median replacement rate goes up to 58 percent. Pensions boost the replacement rate proportionately more for high-wage couples, as high earners are more likely to receive them (Fox, 1982).

Legislative Developments

Until the mid 1970s, decision makers for social security consistently pursued expansionary policies. However, social security's mounting financial problems—caused in part by a technical error involving the benefit formula provided under the 1972 amendments and in part by unfavorable economic conditions of high unemployment and high inflation during the latter half of the 1970s and the early 1980s—led policymakers to reevaluate past policies. The profound demographic shift anticipated for the early 21st century has become an added concern. Consequently, through legislation passed in 1977, 1980, and 1983, Congress adopted a policy to put a brake on social security's expansion. This legislation also eliminated gender-based distinctions in benefit provisions.

Incentive Measures. The 1980 amendments to the Social Security Act—known as the Social Security Disability Amendments of 1980—included several measures related to work incentives for disability beneficiaries. The most notable change was the limitation on maximum family benefits for beneficiary families of the disabled. The level is set lower than for other types of beneficiary families. The objective was to ensure that total benefits for these families do not exceed predisability earnings. Other changes to encourage work related to impairment-related expenses, Medicare benefits, a reentitlement period for disabled beneficiaries, and a trial work period for disabled widows and widowers.

Incentive measures were also legislated for OASI beneficiaries. The provision regarding earnings restrictions, which is considered a major work disincentive—has continually been improved (Boskin, 1977; Bowen &

Finegan, 1969; Burkhauser, 1980; Ozawa, 1979). Beginning in 1990, the benefit-withholding rate for those at and above the NRA will decrease from \$1 for each \$2 of earnings over the annual exempt amount to \$1 for each \$3 of excess earnings. Furthermore, the 1983 amendments gradually increase the delayed retirement credit, the increase in benefits for each year after the NRA that retirement is postponed (until age 70). From 3 percent per year for workers aged 65 in 1990 (then, the NRA), the delayed retirement credit increases to an eventual 8 percent for those attaining the NRA in 2009 (then, age 66).

Economy Measures. The movement to deliberalize benefits and curb future growth in benefit expenditures started in earnest when Congress enacted the Omnibus Budget Reconciliation Act of 1981. This act eliminated regular minimum benefits for both current and future beneficiaries, a provision soon restored for beneficiaries currently eligible at the end of 1981. It also phased out benefits to college students aged 18–21.

The movement gained momentum with the 1983 amendments to the Social Security Act. Perhaps the boldest change was the imposition of income taxes on part of the social security benefits of high-income retirees. Up to half of the benefits are subject to federal income tax for any year in which adjusted gross income plus nontaxable interest income and one-half of the social security benefits exceed a base amount—\$32,000 for married taxpayers filing joint returns, zero for married taxpayers filing separately who lived with their spouses any time during the tax year, and \$25,000 for all others. In another cost-cutting measure, cost-of-living adjustments were shifted to a calendar year basis, with the increase payable in January rather than July. Increasing the NRA to 67 is considered important as a long-term economy measure. The NRA will climb to 66 for those attaining 62 between the years 2000 and 2005, and to 67 for those attaining 62 between 2017 and 2022.

Many congressional leaders and the National Commission on Social Security Reform, who recommended most of the amendments adopted, found that cost-cutting measures alone were inadequate for balancing future revenues and outlays. To strike the

balance, Congress decided to increase future revenues (U.S. National Commission on Social Security Reform, 1983).

The 1983 amendments require, for the first time, compulsory coverage for newly hired federal employees and for all members of Congress, the president, the vice-president, federal judges, and current employees of the legislative branch who are not participating in the civil service retirement system. Employees of nonprofit organizations were also brought under compulsory coverage. In addition, states may no longer terminate social security coverage of state and local employee groups. Another provision stipulates a different benefit formula for persons who receive pensions from noncovered employment and who become eligible for social security benefits through other employment. The objective is to prevent "windfall benefits," meaning a proportionately greater return on their contributions, not because they are long-term, low-wage earners, but because they are high-wage earners covered for a short time.

The recent legislative movement to standardize the review process for terminating disability benefits and to ensure a more vigorous evaluation of mental disability by qualified psychiatrists and psychologists is another indication of policymakers' attempt to economize program costs and to ensure equal treatment of the disabled under the law. The Social Security Disability Benefits Reform Act of 1984 provides various measures to achieve such objectives (Social Security Administration, 1984).

Cost control in Medicare expenditures has long been a serious concern. The establishment of Professional Standards Review Organizations (PSROs) in 1972 indicated Congress's desire to control cost. Consisting of local, practicing physicians, these organizations were made responsible for an ongoing review of Medicare services. However, because many critics questioned their effectiveness, each PSRO was evaluated, and as many as 30 percent of them were terminated by the end of 1982.

The 1982 legislation replaced PSROs with the Utilization and Quality Control Peer Review Organization (UQCPRO) program. This program embraces both proprietary and nonprofit organizations. UQCPROs have greater authority and responsibility than

PSROs did for gathering and disclosing relevant information to federal and state agencies that endeavor to control frauds and abuses.

Before the 1983 amendments were adopted, all inpatient services were paid for on a reasonable-cost basis. The amendments changed the method of payment. HI now pays a fixed amount—determined in advance—for each case, according to the illness's classification among 467 diagnostic related groups (DRGs). The prospective payments are considered payment in full, and hospitals are prohibited from charging beneficiaries more than the statutory deductible and coinsurance. All hospitals participating in Medicare are paid on the prospective payment basis, except psychiatric, long-term care hospitals and children's and rehabilitation hospitals. Under this prospective payment system, hospitals must contract for review services with a Peer Review Organization. Procedures regarding the prospective payment system were being phased in at the time this article was prepared.

Elimination of Gender-Based Distinctions. Under the 1939 amendments, only wives and widows were eligible for spouse benefits and survivor benefits. The 1950 legislation, which marked the emerging recognition by lawmakers that men and women should be treated equally under social security, made husbands and widowers eligible for benefits for the first time, but only if they could prove that they were dependent on their wives. Spurring the momentum toward equal treatment of men and women were Supreme Court decisions in a case that added benefits for fathers who cared for surviving children and a case that eliminated the dependency requirement from widowers' benefits. The Social Security Administration later applied the latter ruling to husbands' benefits also.

The undoing of gender-based distinctions was pursued on other fronts. Legislation passed in 1961 provided that men could retire at age 62, as women could since 1956. Legislation passed in 1972 provided the same computation period for men and women; it had been shorter for women.

Under the 1983 amendments, aged divorced husbands and aged or disabled surviving husbands can claim benefits on their former wives' earnings records. Benefits are

now provided to widowers, as they are to widows, who remarry before age 60 but were unmarried at the time they applied for benefits. As amended previously, remarriage after age 60 does not reduce the benefits for either widows or widowers. Illegitimate children can now claim benefits based on their mothers' and fathers' earnings.

Equal treatment of men and women under social security has usually resulted in additional public expenditures. Even knowing this, federal lawmakers have upheld equal treatment of the sexes.

Future Agenda and Issues

As social security marches into the next century, a drastic demographic shift will begin to exert powerful financial impact on the program. To deal with it, lawmakers have to start facing policy issues now so that future generations of taxpayers will not be asked to bear an unreasonable financial burden. In addition, policymakers will increasingly be called on to make benefit provisions more responsive to women's changing roles. Another concern will be the effect of growing private or governmental pensions on retirement income.

Adequate Benefits. The scheduled tax rates are already high. How can policymakers respond to the legitimate needs of some groups without a further increase in taxes? They may resort to internal redistribution of benefits to solve the problem. For example, they may look into spouses' benefits as a source of funds for redistribution, because these benefits are considered too generous from the viewpoint of economy of scale. Ball (1978), former commissioner of social security, suggests that spouses' benefits should be changed from one-half to one-third of the PIA and that insured workers' benefits be increased by 12.5 percent. Measures like this will probably be a focal point of policy debate.

Pay-as-You-Go Financing. The pay-as-you-go principle of financing social security may well be another issue arousing concern. As long as the ratio of workers to beneficiaries is stable and the economy enjoys steady growth, pay-as-you-go financing works well. But this will not happen. For two and a half decades beginning in the 1990s, the program

will enjoy a lull (that is, surpluses) when Depression-era babies start retiring, only to face a financially difficult period when baby-boomers start retiring thereafter. Upon entering the next century, therefore, strict adherence to pay-as-you-go financing is likely to result in increasingly higher tax rates, imposing a disproportionately heavier financial burden on future generations. If strict pay-as-you-go financing is dropped and funds are allowed to accumulate to prevent this undue burden in the future, then a question arises as to the probable adverse economic effects of the accumulation of funds. For example, the accumulation of a large amount of funds would deprive private-sector establishments of venture capital, because social security trust funds must be invested in obligations of the federal government. A related problem is the possibility that politicians might be tempted to use the accumulated funds either to raise benefits or to bail out HI, which is expected to encounter financial problems in the near future. It will be a delicate political decision to strike the balance between the advantages of adhering to pay-as-you-go financing and the advantages of accumulating a large amount of funds.

Use of General Revenue. Most policymakers in the past have resisted, in principle, drawing funds from general revenue to finance social security. This would erode the contributory principle, without which many beneficiaries would not feel entitled to benefits. However, as payroll taxes continue to increase and thus become a more visible part of the tax structure, policymakers may be tempted to consider the use of general revenue for this purpose. General revenue is increasingly used to finance social security in both direct and indirect ways. The steadily increasing proportion of general revenue used to finance SMI is an example of direct use. Taxing part of social security benefits and crediting the proceeds to the OASDI Trust Funds, as the 1983 amendments provide, is an example of indirect use. Allowing a tax credit against income taxes for a portion of payroll taxes also will bring about the same result—indirect use of general revenue to finance social security. One can anticipate, therefore, a clash between the reality and policymakers' philosophical preferences.

Women under Social Security. As more women participate in the labor force, how women should be treated under social security will become an important policy issue. Currently, the program provides relatively generous benefits for nonworking wives. However, if divorce occurs within 10 years, they lose entitlement to spouses' benefits. Working wives receive benefits based on their own records if such benefits are larger than spouses' benefits based on their husbands' earnings. If not, their benefits are brought up to the level of spouses' benefits; in effect, they receive either spouses' benefits or their own, not both. It should also be recognized that working wives have added disability and survivor benefit protection and that nonworking wives do not. Unmarried working women are simply on their own. Increasingly, women see injustice in the way they are treated under social security. Furthermore, many women now wish to be considered as workers, whether they work in or out of the home. However, politicians know that it is difficult to pursue greater fairness in benefit provision if it results in greatly increased expenditures.

In light of these considerations and constraints, the idea of earnings sharing is attracting many academicians and political leaders (Burkhauser & Holden, 1982). Under this scheme, the annual earnings of both spouses are pooled. Half of the total is then credited to each spouse's account, so that each will have old-age income security independently. The Department of Health, Education, and Welfare (now the Department of Health and Human Services) studied various ways in which the social security system could be adjusted to respond to the changing roles of men and women, including an illustrative earnings-sharing plan (U.S. Department of Health, Education, and Welfare, 1979). A commission established in 1978 by President Carter recommended earnings sharing for divorce purposes (U.S. President's Commission on Pension Policy, 1981). Through its 1983 amendments, Congress directed the Secretary of Health and Human Services to study the feasibility of implementing an earnings-sharing plan. Debate on women's issues will continue, and some changes in benefit provisions for women may occur in the future.

Relation to Other Pensions. The latest data show that 49 percent of elderly couples and 26 percent of the nonmarried elderly are receiving pensions other than social security benefits (Grad, 1984). Younger generations of workers have more extensive pension coverage, and many eventually will receive them. Under most private pensions, benefits are either coordinated with, or offset against, social security benefits. In either case, the result is that private pensions disproportionately benefit high-wage earners compared with low-wage earners in the replacement of earnings lost as a result of retirement. Some policymakers consider this an acceptable outcome, as long as the private pension creates no unfair discrimination when considered in combination with OASDI. However, some argue that to the extent that private pensions are in part publicly financed through special tax treatment, their taking away the low-wage earners' relative advantage in social security benefits is a public issue.⁶

Public employee pensions, which are not coordinated with social security benefits, create a different problem, that of overpensioning. For instance, many retirees with state or local governmental pensions, military pensions, and social security benefits will have retirement income greater than preretirement income (Schulz & Leavitt, 1983).

On the other end of the scale is the question as to whether and to what extent Supplemental Security Income (SSI, a means-tested income transfer program for the aged and disabled) should be used to supplement social security benefits. There are advantages and disadvantages in relying on SSI for such purposes. The use of SSI may be efficient in targeting government funds on the neediest groups but may also increase the stigma often associated with public support and undermine the work incentives of workers with less than average wages to provide for their retirement needs. One can anticipate continuing debates on the proper roles of private pensions, social security, and SSI in

⁶ Employers are allowed to deduct their contributions to qualified pension programs as a deductible business expense for corporate income tax purposes. Employees do not need to pay income taxes on interest on employee and employer contributions until they receive retirement benefits.

providing retirement income to the nation's elderly.

All this points to a future political challenge. Many crucial questions have to be answered. As the United States faces an increasing number of elderly, increasing demands for fairer treatment of women under social security, and extraordinarily high health care costs, how can the nation's finite resources be distributed to simultaneously achieve multiple goals: assurance of a decent, minimum income in old age; equitable and efficient distribution of benefits; the revision of benefit formulas to respond to the changing roles of women in the labor force; and adequate and affordable health care? If history is a guide, political wisdom will prevail, as it always has.

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For further information, see FEDERAL SOCIAL LEGISLATION SINCE 1961; INCOME MAINTENANCE SYSTEM; SOCIAL WELFARE FINANCING; SOCIAL WELFARE POLICY: TRENDS AND ISSUES.

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