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TESTIMONY

Statement of

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Chairman Ferguson, Ranking Member Larson, and Members of the Subcommittee:

Thank you for inviting me to testify on Social Security Fundamentals: A Fact-Based Approach. My name is Barry Huston and I am an analyst in social policy with the Congressional Research Service (CRS).

Background on Social Security

Old-Age, Survivors, and Disability Insurance (OASDI), or Social Security, is a federal social insurance program that provides monthly cash benefits to eligible retired or disabled workers and their dependents, and to the eligible survivors of deceased insured workers.[1] Workers obtain insurance protection by earning a minimum number of work credits during their careers in jobs covered by Social Security. Cash benefits are computed using a progressive formula and are based on a worker's wage-indexed career-average earnings in covered employment and adjusted for inflation through annual cost-of-living adjustments (COLAs). In 2023, Social Security covers approximately 183 million workers (about 94% of the workforce) and provides monthly cash benefits to over 66 million beneficiaries.[2] The program is authorized under Title II of the Social Security Act and administered by the Social Security Administration (SSA).

Social Security is financed primarily by dedicated payroll taxes, which are credited to the program's Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds. The total Social Security payroll tax rate is 12.4% (6.2% for employees and employers, each) and levied on the earnings of covered workers, up to an annual limit (or contribution and benefit base).[3] In 2023, the contribution and benefit base—the maximum annual amount of earnings subject to the Social Security payroll tax and that can be used in calculating benefits—is $160,200.[4] The two trust funds also receive income from the taxation of a portion of Social Security benefits and from interest earned on U.S. securities held by the trust funds (i.e., funds accumulated from years in which total income exceeded total cost). The OASI and DI trust funds are overseen by a Board of Trustees (trustees), which is tasked with reporting to Congress annually on the current and projected financial status of the trust funds.

Historical Overview of the Program

Although the program's original purpose of providing economic security for older workers remains, the Social Security program experienced by Americans today is different from the one that was initially enacted in 1935. In fact, many of the most recognizable elements of the current program did not become law until the 1970s. Over time, Congress has acted to change nearly all aspects of the program, such as benefit levels, contribution levels, coverage, and eligibility.

This section begins by briefly highlighting notable legislative milestones during the early years of the program, with a focus on key program provisions and financing practices. It then examines in somewhat more detail Social Security's financing difficulties during the 1970s and early 1980s and Congress' efforts to improve the long-term solvency of the program.[5]

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[1] CRS Report R42035, *Social Security Primer*.

[2] Social Security Administration (SSA), Office of the Chief Actuary (OCACT), *Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program*, January 24, 2023, https://www.ssa.gov/oact/FACTS/index.html, and SSA, "Monthly Statistical Snapshot, February 2023, released in March 2023, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/.

[3] The *contribution and benefit base* is often referred to as the *taxable maximum*, or *tax max*.

[4] SSA, OCACT, "Contribution And Benefit Base," https://www.ssa.gov/oact/cola/cbb.html.

[5] For more information on the history of the program, see CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*, and Larry DeWitt, "The Development of Social Security in America," *Social Security Bulletin*, 2010, at

1935: Establishment of the Program

The Social Security program was established in 1935 as part of the original Social Security Act.[6] The legislation was rooted in an economic security bill proposed by President Franklin D. Roosevelt earlier that year, which was based on recommendations from the President's Committee on Economic Security. The Social Security Act was designed to improve the economic security of certain groups affected by the Great Depression, including older adults, unemployed workers, and dependent children. Lawmakers viewed older adults as being in need of support because many of them had lost their lifetime savings during this period and their families were less likely to be able to support them given the adverse economic conditions of the time.[7]

For those older adults who were already retired and unlikely to be able to work again, the Social Security Act established federal grants to help states finance the cost of providing means-tested cash assistance to low-income seniors.[8] However, to reduce poverty and the need for means-tested cash assistance among retired persons in the future,[9] the Social Security Act created the Social Security program to allow current workers to contribute to their retirement security through a system of social insurance and receive amounts "which will insure not merely subsistence but some of the comforts of life."[10]

Under the 1935 law, monthly cash benefits were payable to retired persons aged 65 or older who worked for a minimum period in jobs covered by Social Security. Coverage under the program was limited to wage and salary workers in industry and commerce, which was about 56% of the workforce.[11] Benefits were based on a worker's total cumulative wages and structured so that benefit amounts were greater for high-wage workers compared to low-wage workers. However, the benefit formula was weighted to replace a greater percentage of pre-retirement earnings for low-wage workers than for high-wage workers. The 1935 law did not provide any mechanism to automatically adjust (index) the factors used in the benefit formula or the benefits themselves following a worker's entitlement. Absent future legislation, retirees would receive the same benefit amount for the rest of their lives.

The program was financed by payroll taxes paid by workers and their employers. The 1935 law established a payroll tax schedule in which the tax rate would gradually increase over time (from 1% to 3% for employees and employers, each). It also established a limit on the annual amount of earnings subject to the payroll tax ($3,000), which also served to limit the amount of benefits that were payable. As with the benefits, the legislation did not provide any mechanism for automatically adjusting the annual limit on the amount of earnings subject to the payroll tax. Payroll taxes were first levied in 1937, with monthly benefits scheduled to be paid beginning in 1942. The program was structured so that the ratio of workers to beneficiaries would be relatively large during the early years of the program and then would gradually decline as the system matured over the long term.

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https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p1.html (hereinafter cited as "DeWitt 2010").

[6] P.L. 74-271.

[7] U.S. Congress, House Committee on Ways and Means, *The Social Security Bill*, report to accompany H.R. 7260, 74th Cong., 1st sess., April 5, 1935, H.Rept. 74-615, p. 4.

[8] The federal grants to states for old-age and certain other assistance were replaced by the Supplemental Security Income program in the 50 states and D.C. in 1974.

[9] H.Rept. 74-615, p. 3.

[10] Ibid., p. 5.

[11] William J. Nelson, Jr., "Employment Covered Under the Social Security Program, 1935–84," *Social Security Bulletin*, vol. 48, no. 4 (April 1985), p. 34, https://www.ssa.gov/policy/docs/ssb/v48n4/v48n4p33.pdf.

1939-1972: Expansion of the Program

The period 1939-1972 witnessed a notable expansion of the program. Congress established new types of benefits for dependent family members and disabled workers, extended coverage to more groups of workers, and increased benefits to account for the rising cost of living. To finance these changes, lawmakers raised tax revenues, reduced benefits for certain groups of workers, or both. One of the primary objectives of lawmakers during this period was to ensure that the program's income would be reasonably sufficient to cover its cost over the long term.

1939: Creation of Family Benefits, the OASI Trust Fund, and the Trustees

Before the program was in full operation, Congress modified Social Security to expand its scope. In 1939, Congress passed legislation that extended benefits to certain dependent family members of insured workers, namely, wives and minor children of retired workers and widows and surviving minor children of deceased workers.[12] Lawmakers shifted the focus of the program from single persons to families because workers with families were considered likely to have greater financial need than workers without dependents.[13] Relatively few married women or widows worked at the time, and the loss of income to a family due to a worker's retirement or death was presumed to cause financial hardship for the worker's spouse and minor children.[14] Benefits for dependents and survivors were based on a specified share of the worker's basic benefit, subject to a family limit on the total amount of benefits that were payable. (Benefits were later extended to dependent male family members.)

In addition, Congress revised the benefit formula to increase benefits levels for most workers and to compute benefits based on average monthly wages rather than total cumulative wages. This change in the computation of benefits made it possible to start paying monthly benefits sooner in 1940 (originally 1942).[15] Congress also established the OASI trust fund and the trustees to oversee it. The OASI trust fund became effective at the beginning of 1940, and the trustees submitted their first annual report to Congress on the current and projected financial status of the trust fund in 1941.

1950: Extension of Coverage, Ad-Hoc Benefit Increases, and Financing on a Self-Supporting Basis

In 1950, Congress passed legislation that shaped the program in a number of notable ways.[16] First, it extended mandatory coverage to more groups of workers, including certain self-employed individuals, farm workers, and domestic workers. It also provided voluntary coverage to employees of state and local governments and nonprofits under certain conditions. These and subsequent extensions increased coverage under the program to about 86% of the workforce by 1957.[17]

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[12] Social Security Act Amendments of 1939 (P.L. 76-379). Benefits were also extended to dependent parents of insured workers under certain conditions.

[13] U.S. Congress, House Committee on Ways and Means, *Social Security Act Amendments of 1939*, report to accompany H.R. 6635, 76th Cong., 1st sess., June 2, 1939, H.Rept. 76-728, p. 11.

[14] About 15% of married women and 30% of widowed or divorced women were in the labor force in 1940. See U.S. Department of Labor, Women's Bureau, *Employment of Women in the Early Postwar Period with Background of Prewar and Ware Data*, October 1946, Table 7, p.11, https://fraser.stlouisfed.org/files/docs/publications/women/b0211_dolwb_1946.pdf.

[15] Lyle L. Schmitter and Betti C. Goldwasser, "The Revised Benefit Schedule Under Federal Old-Age Insurance," *Social Security Bulletin*, vol. 2, no. 9 (September 1939), https://www.ssa.gov/policy/docs/ssb/v2n9/v2n9p3.pdf.

[16] Social Security Act Amendments of 1950 (P.L. 81-734).

[17] Saul Waldman, "Coverage Extension Under Old-Age, Survivors, and Disability Insurance," *Social Security Bulletin*, vol. 24, no. 6 (June 1961), Table 3, p. 7, https://www.ssa.gov/policy/docs/ssb/v24n6/v24n6p3.pdf.

Second, lawmakers increased benefits for the first time since the program began paying them in 1940. This ad-hoc benefit increase, which averaged about 77%, was enacted because some of the purchasing power of monthly benefits had declined due to price increases in the intervening years. The ad-hoc benefit increase was financed by increases in both the scheduled payroll tax rate and the contribution and benefit base, as well as changes to the benefit formula for long-term workers. This approach for providing and financing ad-hoc benefit increases would be used by Congress over the next several decades.

Third, lawmakers expressed the sense that Social Security should be financed on a "completely self-supporting basis" from the payroll taxes paid by covered workers and their employers.[18] Congress also established a practice of evaluating proposed Social Security changes in terms of their impact on the program's long-term solvency and crafting reform legislation so that Social Security's payroll tax schedule would be more or less sufficient to cover the program's cost over the long term.[19]

1956: Creation of Disability Benefits, the DI Trust Fund, and Early Retirement Benefits

In 1956, Congress extended benefits to disabled workers aged 50 to 64 who are unable to perform a minimum level of work due to a qualifying impairment.[20] (Disability benefits were later extended to disabled workers under age 50.) To address concerns that disability benefits would pose a risk to the solvency of the OASI trust fund, Congress established a separate DI trust fund from which disability benefits are paid.[21] The extension of benefits to disabled workers was financed by an increase in the payroll tax rate, with a portion of the overall payroll tax rate allocated to the DI trust fund.

Lawmakers also reduced the minimum retirement age for women from age 65 to age 62 in recognition that women tend to be younger than their husbands and job openings for women at the time were more likely to impose age limits.[22] To control costs, Congress specified that early retirement and spousal benefits for women be actuarially reduced to account for longer expected duration of benefit receipt over their lifetimes.[23] (Actuarially reduced early retirement and spousal benefits were later extended to men.)

1972: Establishment of Automatic COLAs and Increases in the Taxable Maximum

In 1972, Congress passed legislation that made three major changes to the program.[24] First, the legislation provided a 20% ad-hoc increase in benefits. Second, it provided for future automatic increases in benefits (COLAs) under certain conditions (effective in 1975).[25] This was done to preserve the purchasing power

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[18] U.S. Congress, House Committee on Ways and Means, *Social Security Act Amendments of 1949*, report to accompany H.R. 6000, 81st Cong., 1st sess., August 22, 1949, H.Rept. 81-1300, p. 31.

[19] Robert J. Myers, *Social Security* (McCahan Foundation, 1993), p. 725.

[20] P.L. 84-880. The 1956 legislation also extended benefits to the disabled adult children of retired or deceased insured workers (and later disabled workers). For more information on the history of Social Security disability benefits, see John R. Kearney, "Social Security and the 'D' in OASDI: The History of a Federal Program Insuring Earners Against Disability," *Social Security Bulletin*, vol. 66, no. 3 (August 2006), https://www.ssa.gov/policy/docs/ssb/v66n3/v66n3p1.html.

[21] For more information on the congressional rationale for establishing a separate DI trust fund, see Appendix A in CRS Report R43318, *The Social Security Disability Insurance (DI) Trust Fund: Background and Current Status*.

[22] U.S. Congress, House Committee on Ways and Means, *Social Security Amendments of 1955*, report to accompany H.R. 7225, 84th Cong., 1st sess., July 14, 1955, H.Rept. 84-1189, p. 7.

[23] U.S. Congress, Conference Committee, *Social Security Amendments Act of 1956*, report to accompany H.R. 7225, 84th Cong., 2nd sess., July 26, 1956, H.Rept. 84-2936, p. 25.

[24] P.L. 92-336. The COLA provision, along with the indexation of the contribution and benefit base, was included in H.R. 1, which would eventually become the Social Security Amendments of 1972 (P.L. 92-603). But the provisions were split off from the main text and enacted under P.L. 92-336 instead.

[25] At the time, the COLA was measured from the average CPI of the first quarter of the previous year in which a benefit increase

of Social Security benefits without the need for beneficiaries to periodically petition Congress to legislate ad-hoc benefit increases.[26] Third, it established automatic increases in the contribution and benefit base to finance the automatic COLAs (effective in 1975). The House report accompanying the 1972 legislation explicitly indicated that the automatic increase in the contribution and benefit base would be based on the rise in average covered wages if wage levels have gone up sufficiently, and such increases were intended to finance automatic increases in benefits and would happen only for years in which a COLA is effective.[27]

Mid 1970s-Early 1980s: Financial Difficulties and Efforts to Improve Long-Term Solvency

The Social Security program experienced significant financial difficulties during the mid-1970s through the early 1980s. A combination of high inflation, high unemployment, and slow real wage growth during this period caused the program's costs to exceed its income, which eroded the balances of the Social Security trust funds. To address these challenges, Congress passed a series of legislative measures aimed at mitigating program costs and increasing revenues.

1977: Revisions to Benefits and Taxes

The adverse economic conditions of the 1970s presented the Social Security program with unforeseen challenges. In 1972, inflation was at relatively low rates and expected to decline, but by 1973, inflation had surpassed expectations and the trust funds began to run cash-flow deficits (i.e., the program's costs exceeded its non-interest income).[28] Cost to the program increased due to a series of relatively high ad-hoc and later automatic COLAs, and changes in the relationship between prices and wages during this period caused new groups of retirees to receive higher-than-intended initial benefits relative to their career-average earnings. As Larry Dewitt, Daniel Beland, and Edward Berkowitz note in *Social Security: A Documentary History*:

> As the economics of the 1970s produced disruptions in the historic relationship between prices and wages, this had an adverse effect on Social Security benefits. In a period of stagflation, overall program costs soared and initial benefit levels for future beneficiaries rose much higher than planned.[29]

In response to the financial pressures on Social Security, Congress passed legislation in 1977 that focused on program financing.[30] To address the unintended increase in benefit levels from prior legislation,

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was provided to the average of the first quarter of the current year. In addition, no COLA was provided in any year in which the increase in the CPI was less than 3%. (There was a 3% trigger.) The Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509) eliminated the 3% trigger for Social Security COLAs, requiring instead that inflation (or wage growth in certain cases) be greater than 0% during the specified base period for a COLA to be payable. This requirement effectively allowed for a COLA smaller than 3% to be paid while continuing to protect benefits from being decreased during periods of declining prices (i.e., the Social Security COLA cannot be negative and thus cannot reduce benefit levels).

[26] U.S. Congress, House Committee on Ways and Means, *Social Security Amendments of 1971*, report to accompany H.R. 1, 92nd Cong., 1st sess., May 26, 1971, H.Rept. 92-231, p. 41.

[27] Ibid., pp. 7 and 41.

[28] James Kelley and Joseph Humphreys, *Final Report on the Social Security 'Notch' Issue*, Commission on the Social Security "Notch" Issue, Appendix, 1994, https://www.ssa.gov/history/notchbase.html.

[29] Larry Dewitt, Daniel Beland, and Edward Berkowitz, *Social Security: A Documentary History* (2008), p. 20. Stagflation exists when an economy experiences both high inflation and high unemployment; the U.S. economy experienced such conditions during the 1970s. For more information on stagflation, see CRS Report R41656, *Changing the Federal Reserve's Mandate: An Economic Analysis*.

[30] Social Security Amendments of 1977 (P.L. 95-216).

Congress revised the benefit formula in an effort to stabilize the ratio of initial benefits to career-average earnings for new groups of retirees. By reducing this ratio to previously expected levels, the legislation was expected to relieve some financial pressure on the system.[31] It was projected that, without this change, a worker's future benefits could exceed his or her pre-retirement earnings.[32] The 1977 amendments designed the current-law benefit formula by establishing a formula that indexes workers' initial benefit levels to wage growth and then indexes their future benefits to price growth.[33]

Among other things, the 1977 legislation also provided for an increase in payroll tax revenues. First, the legislation increased the payroll tax rate and set a schedule for future increases. Second, the legislation increased the contribution and benefit base to higher-than-projected levels for 1979, 1980, and 1981.[34] After 1981, the contribution and benefit base would return to the automatic (i.e., wage-indexed) adjustments. As projected in 1977, this change in financing would have resulted in about 91% of all payroll to be subject to the payroll tax and about 95% of all covered workers having their full earnings credited for benefit purposes.[35]

Early 1980s: Near Depletion of the OASI Trust Fund and Establishment of the Modern Program

At the time, the 1977 legislation was projected to correct the financial imbalances of the Social Security system for about 50 years. Initially, this seemed to be the case. The 1978 and 1979 annual trustees reports indicated an improving financial situation.[36] However:

> In 1980, price inflation hit 13.5 percent, while wage growth declined by 4.9 percent—producing a double blow to the program's financing by simultaneously increasing costs as revenues declined. By the time the 1980 Trustees Report was released, the trustees were calling for stop-gap financing changes.[37]

The 1980 annual trustees report highlighted that the OASI trust fund would be depleted by early 1982 under the most optimistic set of assumptions.[38] Although the balance of the DI trust fund was projected to continue to increase, its rate of growth was not projected to be great enough to offset the decline in the

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[31] For instance, before the 1977 legislation, the replacement ratio for average workers was projected to grow from 44% in 1980 to 60% in 2020. After the 1977 legislation, the replacement rate for average workers was projected to be 43% for all average workers retiring after 1980. John Snee and Mary Ross, "Social Security Amendments of 1977: Legislative History and Summary of Provisions," *Social Security Bulletin*, vol. 41, no. 3 (March 1978), pp. 3-20, https://www.ssa.gov/policy/docs/ssb/v41n3/v41n3p3.pdf (hereinafter cited as "Snee and Ross 1978").

[32] Larry Dewitt, Daniel Beland, and Edward Berkowitz, *Social Security: A Documentary History* (2008), pp. 298-321.

[33] "The new benefit formula was designed by Congress in such a way that, eventually, replacement ratios for retiring workers at age 62 will be about 5 percent lower (relatively) than they would have been in 1979 under the old benefit formula.... The revised method of computing benefits eliminated about one-half of the deficit that had been projected over the next 75 years." A. Haeworth Robertson, "Financial Status of Social Security Program After the Social Security Amendments of 1977," *Social Security Bulletin*, vol. 41, no. 3 (March 1978), pp. 21-30, https://www.ssa.gov/policy/docs/ssb/v41n3/v41n3p21.pdf.

[34] Ibid. "Under the old law, approximately 85 percent of the total payroll in covered employment was subject to tax. Under the new law, after 1980 about 91 percent of the total payroll will be subject to tax.... The net effect will be to reduce the future deficits by approximately 0.5 percent of taxable payroll." The actuarial deficit in 1977 was projected at 8.20 percent of taxable payroll. After the passage of the 1977 amendments, the actuarial deficit was projected to be 1.46 percent of taxable payroll (see https://pensionresearchcouncil.wharton.upenn.edu/wp-content/uploads/2019/05/Chapter-10.pdf#page=62).

[35] Snee and Ross 1978, p. 17.

[36] DeWitt 2010.

[37] Ibid.

[38] The Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *1980 Annual Report*, June 19, 1980, https://www.ssa.gov/OACT/TR/historical/1980TR.pdf, p. 3.

OASI trust fund.[39] Under the program's financing structure at the time, the trustees cautioned that the system would be unable to pay full scheduled benefits on time within a relatively short period.

In the fall of 1980, Congress had reallocated Social Security tax revenues from the DI trust fund, which was relatively financially sound at the time, to the OASI trust fund during 1980 and 1981.[40] The purpose was to maintain adequate reserves in both funds at least through the end of 1981 and allow Congress more time to consider options to improve the system's finances.[41] However, the financial situation of the OASI trust fund continued to deteriorate and lawmakers were forced to act.

In December 1981, President Ronald Reagan established the bipartisan National Commission on Social Security Reform—commonly referred to as the Greenspan Commission due to its chairmanship by Alan Greenspan—to review options and come up with a plan to restore financial balance to the Social Security system and ensure that beneficiaries would continue to receive their full benefits. Also in December 1981, as the financial situation of the OASI trust fund continued to deteriorate, Congress passed legislation that, among other things, allowed the OASI trust fund to borrow from the DI trust fund and Medicare's Hospital Insurance (HI) trust fund, both of which were in a relatively better financial position at the time.[42] The OASI trust fund was required to repay the borrowed amounts with interest and could not borrow more than what was required to pay full benefits through June 30, 1983.[43]

The 1982 annual trustees report, which was released in April of that year, stated that in the absence of legislative action, the OASI trust fund would soon be insolvent.[44] With the Greenspan Commission's work underway, projections in the 1982 report showed that Social Security would no longer be able to pay full benefits on a timely basis starting in mid-1983.[45] By November 1982, the balance of the OASI trust fund had fallen to zero, and continuing tax revenues were insufficient to pay in full the OASI benefit checks that had been delivered at the beginning of the month.[46] To cover the shortfall, the Secretary of the Treasury authorized a $581 million loan from the DI trust fund to the OASI trust fund. Additional loans from the DI and HI trust funds to the OASI trust fund were made before the temporary interfund borrowing authority expired at the end of December 1982. These loans gave lawmakers a short six-month window to address the financial imbalance of the OASI trust fund.[47]

In January 1983, the Greenspan Commission submitted its report to the Administration and Congress on recommendations to improve the short- and long-range financial condition of Social Security.[48] The commission's final recommendations followed the principle of balancing tax increases with benefit reductions. The commission also recommended unanimously that Congress not alter the fundamental

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[39] Ibid.

[40] P.L. 96-403.

[41] John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin*, vol. 46, no. 7 (July 1983), p. 5, https://www.ssa.gov/policy/docs/ssb/v46n7/v46n7p3.pdf (hereinafter cited as "Svahn and Ross 1983").

[42] P.L. 97-123.

[43] For more information, see Bruce D. Schobel, "Interfund Borrowing Under the Social Security Act," *Social Security Bulletin*, vol. 46, no. 9 (September 1983), https://www.ssa.gov/policy/docs/ssb/v46n9/ (hereinafter cited as "Schobel 1983").

[44] The Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *The 1982 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, April 1, 1982, p. 2, https://www.ssa.gov/OACT/TR/historical/1982TR.pdf.

[45] Ibid.

[46] Schobel 1983. See also Edward Cowan, "Leaders of Both Parties Facing Tough Choices on Social Security Problems," *The New York Times*, November 7, 1982, http://www.nytimes.com/1982/11/07/us/leaders-of-both-parties-facing-tough-choices-on-social-security-problems.html.

[47] The 1982 loans from the DI and HI trust funds to the OASI trust fund were repaid in full by the end of April 1986.

[48] *Report of the National Commission on Social Security Reform*, January 1983, http://www.ssa.gov/history/reports/gspan.html.

structure of the Social Security program or undermine its fundamental principles in its deliberations on financing proposals.[49] Key recommendations, roughly balanced between revenue increases and benefit reductions, were to: make Social Security coverage mandatory for newly hired federal civilian employees and employees of nonprofit organizations; prohibit state and local governments from terminating Social Security coverage; delay the annual 1983 COLA for six months; make up to one-half of Social Security benefits subject to federal income taxes for certain beneficiaries and credit the revenues to the Social Security trust funds;[50] establish a "windfall elimination provision" to reduce Social Security benefits for workers who also receive pensions from employment that was not covered by Social Security;[51] increase the Social Security payroll tax rate for self-employed workers, making it equal to the combined employer/employee payroll tax rate; accelerate scheduled increases in the Social Security payroll tax rate; and authorize interfund borrowing by the Social Security trust funds from the Medicare HI trust fund for 1983-1987.

The commission's full package of recommendations was estimated to address Social Security's projected short-term financing deficit as well as about *two-thirds* of its projected long-range actuarial deficit. However, the commission could not agree on recommendations to address the other *one-third* of the projected long-range actuarial deficit, deferring to lawmakers to come up with proposals to do so.

After the commission released its final report, President Ronald Reagan and Speaker of the House Tip O'Neil—and other members of House and Senate leadership—endorsed the report.[52] All provisions suggested in the commission's final report were included in legislation that eventually became the Social Security Amendments of 1983.[53] In early March 1983, the House Ways and Means Committee reported its bill, H.R. 1900, to the House, which incorporated the commission's recommendations, along with additional provisions to resolve the remaining one-third of the system's projected long-range actuarial deficit.[54] The House report accompanying the legislation stated, "the primary focus of [the legislation] is on restoring the financial soundness of the old age and survivors' insurance (OASI) program, which is facing severe cash shortfalls over the next 7 years."[55]

During debate on the bill, the House proceeded to consider two amendments under a modified closed rule that would strike the long-range financing provisions in the committee bill and replace them with either (1) a proposal to eliminate the remaining projected long-range actuarial deficit solely by gradually increasing the full retirement age from 65 to 67 by 2022 or (2) a proposal to eliminate the remaining projected long-range actuarial deficit solely by increasing Social Security payroll tax rates beginning in 2010.[56] Of these two amendments, the House approved the one to gradually raise the full retirement age from 65 to 67, which was included in the House-passed version of the bill.[57]

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[49] Ibid., ch. 2. At the time, the system's projected long-range actuarial deficit was equal to 1.80% of taxable payroll. Estimates showed that the consensus package would eliminate two-thirds of the projected funding shortfall, an amount equal to about 1.22% of taxable payroll.

[50] For more information, see CRS Report RL32552, *Social Security: Taxation of Benefits*.

[51] For more information, see CRS Report 98-35, *Social Security: The Windfall Elimination Provision (WEP)* .

[52] Svahn and Ross 1983, p. 7.

[53] P.L. 98-21.

[54] David Stuart Koitz, *Social Security Financing Reforms: Lessons from the 1983 Amendments*, CRS Report 97-741, July 24, 1997. This report is out of print. It is available from CRS to congressional clients upon request.

[55] U.S. Congress, House Committee on Ways and Means, *Social Security Act Amendments of 1983*, report to accompany H.R. 1900, 98th Cong., 1st sess., March 4, 1983, H.Rept. 98-25, Part 1 (Washington, DC: GPO, 1983), p. 1.

[56] Svahn and Ross 1983, p. 14.

[57] Ibid., p. 16.

In the Senate, the Committee on Finance reported out its bill, S. 1. As with the House bill, the committee adopted long-term financing measures along the lines of the recommendations of the Greenspan Commission. The committee bill included provisions to address the remaining long-range actuarial deficit by, among other things, gradually increasing the full retirement age from 65 to 66 beginning in 2015 and gradually reducing initial benefit levels by about 5% over the period 2000-2007.[58] These provisions were included in the Senate-passed version of the bill.[59]

In conference, the conferees agreed to the House provision to address the remaining projected long-range actuarial deficit solely by gradually raising the full retirement age by two years from 65 to 67. Other provisions that were not part of the commission's final report include: "fail-safe" financing mechanisms, speeding up the crediting of Social Security tax receipts to the trust funds and extending authority for interfund borrowing on a broader basis than recommended by the commission; provisions affecting dependents and survivors; and provisions with relatively small impact on revenues or expenditures, including limitations on Social Security benefit payments to certain noncitizens residing outside the United States and convicted felons, expanded use of death certificates in verifying benefit eligibility, and others.[60]

Also included in the 1983 amendments were provisions to eliminate remaining gender-based distinctions and modify the Government Pension Offset, which reduces Social Security spousal and survivor benefits for people who also receive pensions from employment that was not covered by Social Security. Provisions to eliminate remaining gender-based distinctions had been passed by the House in 1977 but were not included in the final version of the 1977 amendments. The Greenspan Commission did not include these provisions in their final report. The House bill included these provisions and these were also adopted in the Senate bill. With their inclusion in the 1983 amendments, Social Security program rules have been gender-neutral.

On April 20, 1983, President Ronald Reagan signed H.R. 1900 into law (P.L. 98-21).[61] The 1983 annual trustees report, issued months after the enactment of the 1983 amendments, acknowledged that even with the interfund borrowing that Congress had approved, the program would have not been able to pay benefits on time after June of 1983 were it not for enactment of the 1983 amendments.[62] The trustees further noted that the report marked the first time in a decade that the program showed a projected 75-year actuarial balance between costs and income. The 1984 and 1985 annual trustees reports projected a small actuarial deficit but projected cost and income rates to remain in relatively close balance.[63]

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[58] Ibid., p. 18.

[59] Ibid., p. 21.

[60] At passage, the 1983 amendments included two provisions related to the Social Security COLA: (1) a 6-month delay in the 1983 COLA and a shift of subsequent COLAs to a calendar year basis, and (2) a trust fund stabilizer provision.

[61] At the time of enactment, the change in payroll taxes was projected to increase the actuarial balance by 0.86 percent of taxable payroll over a 75-year period. Changes in benefits were projected to account for an increase in the balance by 0.79 percent of taxable payroll (the increase in retirement ages, alone, provided an increase in the balance by 0.71 percent of taxable payroll). Coverage changes increased the actuarial balance by 0.44 percent of taxable payroll (see Table 7, at https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p1.pdf).

[62] The Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *1983 Annual Report*, June 24, 1983, p. 2, https://www.ssa.gov/OACT/TR/historical/1983TR.pdf.

[63] At the time, this relationship was defined as *close actuarial balance.* That is, the program was said to be in close actuarial balance over the long-range period if the estimated average income rate is between 95% and 105% of the estimated average cost rate. The Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *1985 Annual Report*, March 25, 1985, p. 26, https://www.ssa.gov/OACT/TR/historical/1985TR.pdf.

Post-1983 and Concluding Remarks

The Social Security program has evolved from where it began in 1935. Most changes up to and including the 1972 law were expansions of the program. Legislation passed in 1972 started automatic adjustments for cost-of-living and increases in the contribution and benefit base. Legislation passed in 1977 created the current benefit formula that links initial benefit calculation to wage growth. The 1983 amendments, which included raising the full retirement age from 65 to 67, are commonly referred to as the last *major* Social Security-related legislation and mark the last time Congress made changes to the benefit and payroll tax structure and coverage of the program. The 1983 legislation was seen as solving the short-term and medium-term financing issues that had pressured Social Security for the prior 10-year period.

After the 1983 legislation, the program's projected cost and income rates were relatively close over the long-term. However, in the ensuing years the program has moved farther out of actuarial balance. The Committee on Ways and Means' *2004 Green Book* summarized this transition:

> "The longer range picture for Social Security has been worsening gradually since 1983. By gradually raising Social Security's age for receiving full benefits from 65 to 67, subjecting benefits to income taxes, and making new Federal and nonprofit workers join the system, Congress had attempted in 1983 to eliminate the long-run problem. In fact, projections made then showed that Congress had stemmed the red ink, at least on average, for the following 75 years. However, the average condition of the two trust funds did not represent their condition over the entire period. The funds were not shown to be insolvent at any point, but their expenditures were expected to exceed their income by 2025 and to remain higher thereafter. Simply [s]tated, 40 years of surpluses were to be followed by an indefinite period of deficits. With each passing year since 1983, the Trustees' 75-year averaging period has picked up 1 deficit year at the back end and dropped a surplus year from the front end. This, by itself, would cause the average condition to worsen. However in recent reports, assumptions about birth rates, economic growth, and wages have been lowered, causing further deterioration in the long-term outlook."[64]

Since 2010, Social Security has operated with cash deficits (i.e., expenses exceed tax revenues) and the trustees project cash deficits for the remainder of the 75-year projection period. In 2021, Social Security experienced its first annual deficit since 1982. In 2021, tax revenues plus interest income fell short of total expenses. Thus, in 2021, the redemption of asset reserves held in the trust funds provided the additional $56 billion that was needed to pay scheduled benefits. In 2022, the program redeemed $22 billion. As currently projected, some amount of trust fund assets would be redeemed each year until the projected depletion date (2034). The projected rising cost of the program suggests that successively more assets would be redeemed each year to pay scheduled benefits until depletion.

Once asset reserves are depleted, barring any congressional action, the program can pay out in benefits only the amount it receives in income from tax revenues. The trustees project that in 2034—the projected date of combined trust fund depletion—tax revenues will be sufficient to pay about 80% of scheduled benefits. The percentage of benefits supported by revenues from payroll taxes and the taxation of Social Security benefits will gradually decrease to about 74%, by 2097.

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[64] U.S. Congress, House Committee on Ways and Means, *Background Material and Data on the Programs within the Jurisdiction of the Committee on Ways and Means (Green Book)*, 108th Cong., 2nd sess., March 1, 2004, WMCP 108-6, pp. 1.11-1.12, https://www.govinfo.gov/content/pkg/GPO-CPRT-108WPRT108-6/pdf/GPO-CPRT-108WPRT108-6-2-1.pdf.

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