

25. SOCIAL SECURITY

Table 25-1. FEDERAL RESOURCES IN SUPPORT OF SOCIAL SECURITY

(In millions of dollars)

Function 650	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	3,457	3,205	3,163	3,211	3,201	3,192	3,194
Mandatory Outlays:							
Existing law	362,296	378,099	392,848	409,235	427,005	446,860	467,351
Proposed legislation			20	102	137	151	151
Tax Expenditures:							
Existing law	23,565	24,825	25,960	27,210	28,400	29,795	31,315

The Old-Age, Survivors, and Disability Insurance (OASI) program, popularly known as Social Security, will spend about \$392 billion in 1999 to provide a comprehensive package of protection against the loss of earnings due to retirement, disability, or death.

OASDI provides monthly benefits to retired and disabled workers who gain insured status and to their eligible spouses, children, and survivors (see Table 25-2). The Social Security Act of 1935 provided retirement benefits, and the 1939 amendments provided benefits for survivors and dependents. These benefits now comprise the Old Age and Survivors Insurance Program (OASI). Congress provided disability benefits by enacting the Disability Insurance (DI) program in 1956 and benefits for the dependents of disabled workers by enacting the 1958 amendments.

Social Security was founded on two important principles: social adequacy and individual equity. Social adequacy means that benefits will provide a certain standard of living for all contributors. Individual equity means that contributors receive benefits directly related to the amount of their contributions. These principles still guide Social Security today.

What Social Security Does

Social Security helps alleviate poverty, provide income security, and maintain the lifestyles of beneficiaries.

Alleviating Poverty: Social Security is largely responsible for reducing poverty among the elderly. In 1996, 16 percent of elderly, unmarried beneficiaries had family incomes below the poverty line. Without Social Security retirement benefits, 61 percent of them would have fallen into poverty. For elderly couples, Social Security has had a similar effect. In 1996, three percent of the elderly who were married had incomes below the poverty line. Without Social Security retirement benefits, 41 percent of them would have had such incomes (see Table 25-3).

Income Security: Social Security was originally designed to provide a continuing income base to help eligible workers maintain a household when they retired. In 1935, personal savings, family support, and Federal welfare programs were the main sources of income for those 65 and older who did not work. Social Security supplemented private savings and employer-provided pensions to ensure an adequate level of retirement income. While these other vehicles are still important today, two-thirds of those over 65 now get the major portion of their income from Social Security. The

Table 25-2. MILLIONS BENEFIT FROM SOCIAL SECURITY
(Number of OASDI beneficiaries)

	Thousands of beneficiaries	
	1997 Actual	1999 Estimate
Retired workers and families:		
Retired workers	26,927	27,583
Wives and husbands	2,953	2,911
Children	444	451
Survivors of deceased workers:		
Children	1,907	1,948
Widowed mothers and fathers with child beneficiaries in their care	233	235
Aged widows and widowers, and dependent parents	5,004	5,040
Disabled widows and widowers	183	193
Disabled workers and families:		
Disabled workers	4,397	4,776
Wives and husbands	218	201
Children	1,451	1,448
Total OASDI recipients	43,717	44,786

Table 25-3. SOCIAL SECURITY PROTECTS OLDER AMERICANS FROM POVERTY

(Percentage of older Americans in poverty with Social Security and the percent that would be in poverty in the absence of the program)

	Without Social Security	With Social Security
Aged Individuals	61%	16%
Aged Couples	41%	3%

average retiree receives a Social Security benefit equal to 43.6 percent of pre-retirement income. In 1997, Social Security paid about \$257 billion in benefits to over 30 million retired workers and their families. Along with retirement benefits, Social Security also provides income security for survivors of deceased workers. In 1997, Social Security paid about \$56 billion in benefits to over seven million survivors.

DI also provides income security for workers and their families who lose earned income when the family provider becomes disabled. Before DI, workers often had no such protec-

tion. To be sure, employees disabled on the job may have benefits from State workmen's compensation laws. Congress enacted DI to protect the resources, self-reliance, dignity, and self-respect of those suffering from non-work-related disabilities. DI protection can be extremely valuable, especially for young families that could not sufficiently protect themselves against the risk of the worker's disability. In 1997, Social Security paid about \$45 billion in benefits to over six million disabled workers and their families.

Maintaining Lifestyles: Before Social Security, about half of those over 65 depended on

others, primarily relatives and friends, for all of their income. The same was often true for people with disabilities. Now, with Social Security, the vast majority of those over age 65 and those with disabilities can live relatively independent lives. Moreover, their families no longer carry the sole responsibility of providing their financial support.

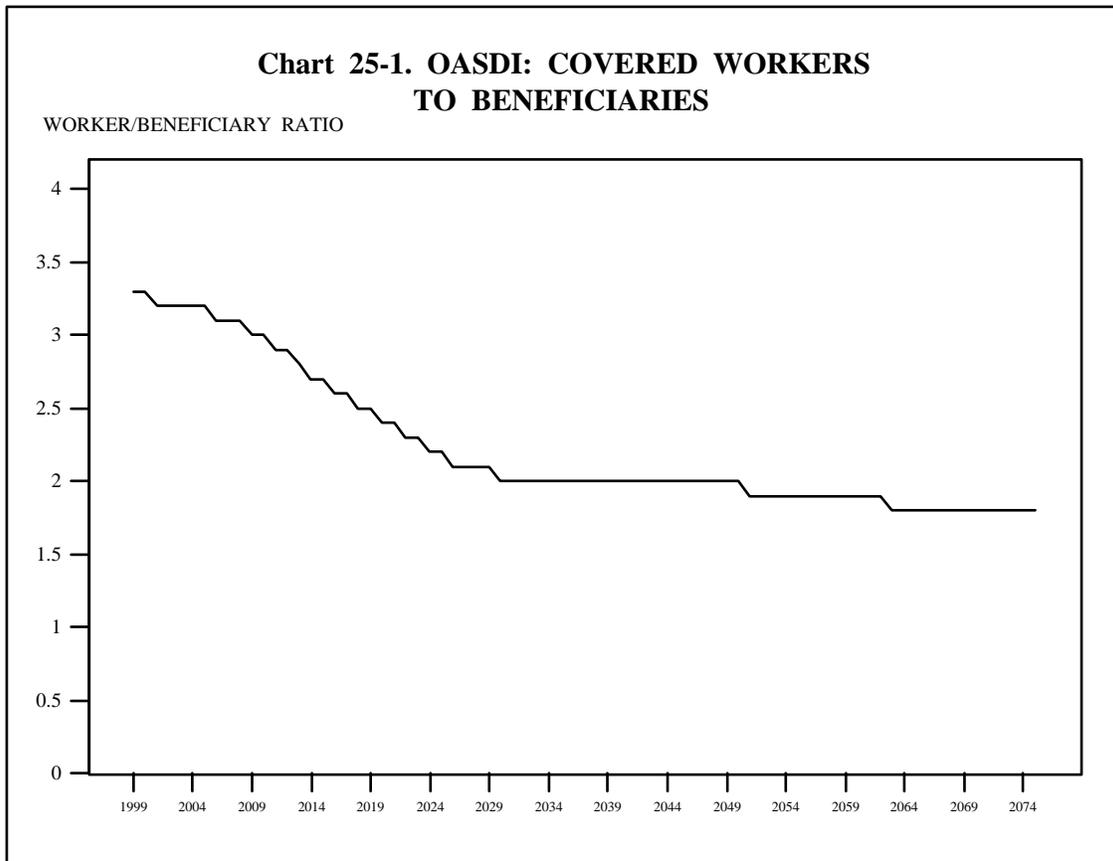
Growth in Retirement Benefits

Social Security’s retirement component is facing financial stress due to changing demographics and its own financing. The retirement program is largely “pay as you go”—current retirement benefits are financed by current payroll contributions. Such financing worked well in the past, when five workers paid for every retiree. But, when the baby boom generation retires, eventually only two workers will pay for every retiree (see Chart 25–1). Furthermore, while the system’s financial burden will increase greatly with the baby boomers’ retirement, the Social Security Trustees do not expect demographic trends to improve markedly in later periods.

Adding to the financial stress, baby boomers are having fewer babies and living longer. In 1957, women had an average of 3.7 babies, compared to 1.99 today. In 1935, life expectancy was 63 years for females, 60 for males. By contrast, baby boomers have a much longer life expectancy—73 years for females and 67 for males. The longer people live, the longer they will collect Social Security. The more time that people spend retired, the more people there are to support at any one time, and the fewer there are working and contributing to provide that support.

Growth in Disability Benefits

Social Security’s disability component has grown rapidly since its inception. The program provided about \$45 billion to about six million disabled beneficiaries and their families in 1997, compared to \$57 billion for 150,000 disabled workers in 1957. Growth has been especially rapid in the last 10 years, with the number of beneficiaries rising by 75 percent and benefits rising by 125 percent.



What has caused the growth? More and more baby boomers are reaching the age at which they are increasingly prone to disabilities; the number of women insured has risen; and laws, regulations, and court decisions have expanded eligibility for benefits. In addition, the annual share of beneficiaries leaving the rolls has fallen steadily, making it more important to ensure that those remaining on the rolls are all, in fact, eligible for benefits. To maintain DI's integrity, the Administration proposes to maintain support for continuing disability reviews (CDRs)—a periodic review of individual cases that ensures that only those eligible continue to receive benefits.

The budget proposes a Ticket to Independence pilot program to encourage DI beneficiaries and Supplemental Security Income (SSI) disabled recipients to re-enter the workforce. Currently, the Social Security Administration (SSA) refers these beneficiaries to State and, in limited cases, private Vocational Rehabilitation agencies. Under this proposal, beneficiaries could choose their own public or private vocational rehabilitation provider—and the provider could keep a share of the DI and SSI benefits that the Federal Government no longer pays to these individuals after they leave the rolls.

A Long-range Problem, but No Crisis

The OASDI trust funds are not in balance over the next 75 years—the period over which the Social Security Trustees have traditionally measured Social Security's well-being. In their 1997 report, the Trustees estimated that the combined OASDI trust funds would have a cash imbalance in 2012 and be insolvent in 2029. Much of the deterioration arises from changes described above in demographics over the measurement period. The President wants to work with Congress on a bipartisan basis to develop a long-term solution to the financing challenge. Acting sooner rather than later to address the long-term inadequacies of OASDI financing will reduce the magnitude of changes needed.

Social Security Administration (SSA)

SSA administers OASI and DI as well as SSI, which is part of the Income Security function. SSA also provides services to Medicare on behalf of the Health Care Financing Administration, which is part of the Medicare function.

SSA's Performance Plan for 1999 generally reflects its commitment to maintain the quality of its program administration, reflected in terms of customer service delivery, operational efficiency, and program integrity. SSA's key performance measures and commitments for 1999 include the following.

For customer service delivery:

- SSA will maintain its current performance level of ensuring that 95 percent of callers access the 800-number within five minutes of their first call.
- The average processing time for completing hearings on appeals of disability claims decisions will be 284 days by year-end, compared to 398 days at the end of 1997.

For operational efficiency:

- SSA will process 3,143,000 claims for Social Security retirement and survivors benefits, compared to 3,129,000 in 1997.

For program integrity:

- SSA will process 1,637,000 reviews of the eligibility of recipients of DI and SSI disability benefits, compared to 690,000 disability reviews in 1997.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits only when their overall income, including Social Security, exceeds certain income thresholds. These thresholds reduce total Social Security beneficiary taxes by \$26 billion in 1999 and \$143 billion from 1999 to 2003.