

24. SOCIAL SECURITY

Table 24-1. Federal Resources in Support of Social Security
(In millions of dollars)

Function 650	1999 Actual	Estimate					
		2000	2001	2002	2003	2004	2005
Spending:							
Discretionary Budget Authority ...	3,156	3,175	3,451	3,452	3,492	3,580	3,658
Mandatory Outlays:							
Existing law	386,991	403,332	422,167	442,982	465,299	489,685	516,232
Proposed legislation				64	113	144	153
Tax Expenditures:							
Existing law	23,300	24,505	25,765	27,295	28,990	30,760	23,290

The Old-Age, Survivors, and Disability Insurance (OASDI) programs, commonly known as Social Security, are crucial to the economic well-being of tens of millions of Americans. Social Security will spend \$426 billion in 2001 to provide 45 million beneficiaries with comprehensive protection against loss of income due to the retirement, disability or death of a wage earner.

Social Security provides monthly benefits to retired and disabled workers who gain insured status and to their eligible spouses, children, and survivors. 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 (OASI) program. Congress provided benefits for disabled workers by enacting the Disability Insurance (DI) program in 1956 and added benefits for the dependents of disabled workers in 1958. Nearly one third of Social Security beneficiaries are disabled workers and their families, or survivors of deceased workers (see Table 24-2).

DI provides income security for workers and their families when workers lose their capacity to work due to disability. Before DI, workers often had no such protection, although in some cases employees whose injuries were job-related may have received

State worker's compensation benefits. Congress enacted DI to protect the resources, self-reliance, and self-respect of those suffering from non-work-related disabilities. DI protection can be extremely valuable, especially for young families who are unable to sufficiently protect themselves against the risk of the worker's disability.

The Government will collect \$508 billion in Social Security taxes in 2001. These taxes will be credited to the OASI and DI trust funds, along with \$68 billion of interest on Treasury securities held by the trust funds.

In 1999, Social Security paid out a total of \$383 billion to more than 44 million beneficiaries. These payments included \$257 billion in benefits to 31 million retired workers and their families and about \$75 billion in benefits to seven million survivors of deceased workers. Through the DI program, Social Security paid \$50 billion in benefits to more than six million disabled workers and their families.

Many beneficiaries would face a high risk of poverty without the income protection provided by Social Security. When President Roosevelt signed Social Security into law, most seniors were poor. Since then, Social Security benefits have significantly improved the well-being of the Nation. The poverty

Table 24-2. Millions Benefit from Social Security
(Thousands of OASDI Beneficiaries)

	2001 Estimate
Retired workers and families:	
Retired workers	28,174
Wives and husbands	2,797
Children	442
Survivors of deceased workers:	
Children	1,899
Widowed mothers and fathers with child beneficiaries in their care	202
Aged widows and widowers, and dependent parents	4,799
Disabled widows and widowers	194
Disabled workers and families:	
Disabled workers	5,158
Wives and husbands	172
Children	1,496
Total	45,333

rate among the elderly declined from 29.5 percent in 1967 to 10.5 percent in 1998, in large part due to Social Security.

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.

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. Today, nearly two thirds of those over age 65 get at least half of their income from Social Security (see Chart 24-1). Social Security benefits account for 38 percent of all income that goes to the elderly population. For an average-wage worker retiring in 1999, Social Security replaced about 40 percent of his or her pre-retirement earnings. 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.

Social Security is especially important for women, who make up nearly 60 percent

of all Social Security beneficiaries, and 72 percent of all beneficiaries over age 85. Many women beneficiaries are entitled as spouses of retirees or survivors of deceased workers. Social Security plays a larger role in women's retirement income than men's in part because women live longer on average, and the inflation-indexing of Social Security benefits protects their buying power over time. Women also tend to have lower lifetime earnings than men, and the progressive nature of the Social Security benefit formula enhances the role of these benefits in women's retirement income. Finally, women are less likely than men to retire with private pensions. While the differences between men's and women's work patterns and earnings are expected to shrink in the next few decades, they are not expected to disappear entirely. For all of these reasons, Social Security makes up a larger share of retirement income for women than it does for men, and women are more likely to rely on Social Security for all of their retirement income (see Table 24-3).

The Long-Range Challenge

Social Security is designed to be self-financed; its most important revenue source is the payroll tax. Right now, the Social Security trust funds are expected to run a cash surplus until 2014. Current economic and demographic forecasts indicate, however,

Chart 24-1. Share of OASI Beneficiaries Who Relied on Social Security for a Given Portion of Their Income, 1998

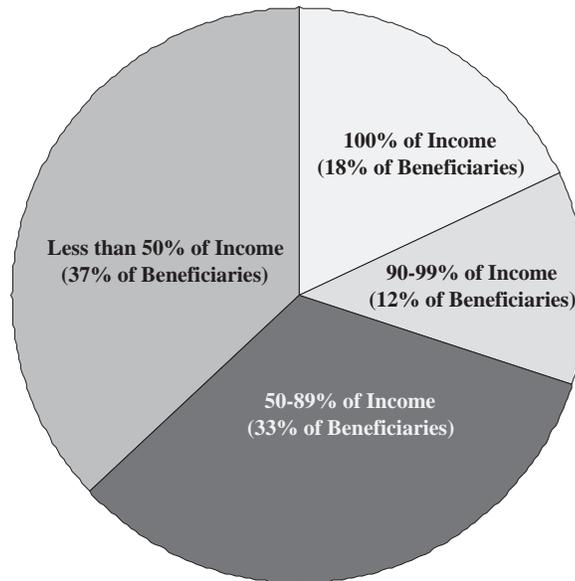


Table 24-3. Social Security is Crucial to Retirement Income
(Percentage of those over age 65 who relied on Social Security for their entire income, 1996)

	Social Security is sole income source
Unmarried women	25%
Unmarried men	20%
Married couples	9%

that cash revenues will fall short of expenditures after that time, and the trust funds will exhaust their assets in 2034 unless corrective action is taken. After 2034, payroll taxes are projected to cover 71 percent of benefits. Social Security is largely “pay-as-you-go,” meaning current retirement benefits are financed by current payroll contributions. However, pressure on the financing system is growing due to two demographic factors: members of the baby boom and subsequent generations are having fewer children and

are predicted to have longer life spans than previous generations. The consequence of these trends is that the ratio of workers paying into the system for each beneficiary will decline—from 3.4 workers per beneficiary in 2000 to a projected two workers per beneficiary in 2034 (see Chart 24-2). Another source of pressure on the trust funds is the rapid growth of the DI program, which is expected to accelerate as baby boomers reach the age at which they are increasingly prone to disabilities.

The President proposes to ensure the long-range viability of Social Security through a combination of bipartisan reforms and by transferring new resources to the Social Security trust funds. For further discussion of the long-range issues facing Social Security and the President’s plan for addressing them, see Section III, “Sustaining Our Economic Prosperity.”

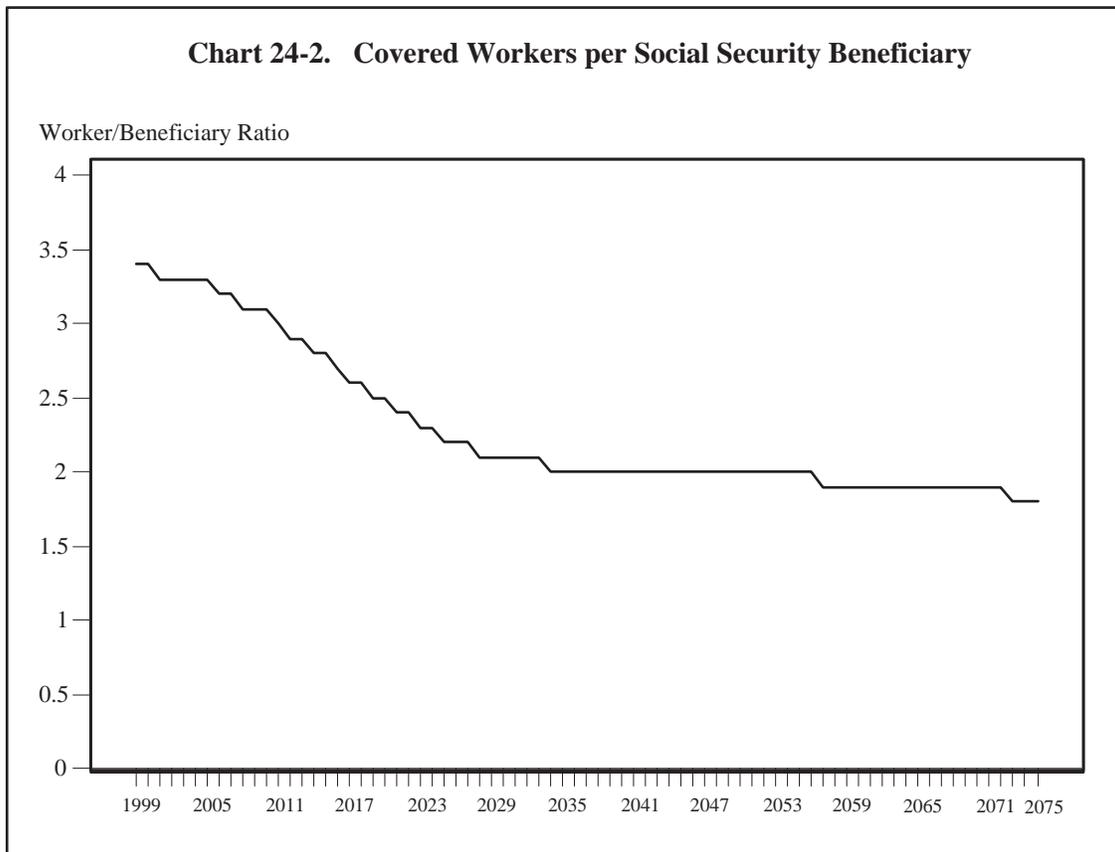
Social Security Administration (SSA)

To operate a program of this magnitude, both in terms of the dollar amounts involved and the size of the population served, requires an efficient and responsive administrative structure. SSA, which administers the OASI and DI programs, touches the lives of millions of Americans every year. SSA also runs the Supplemental Security Income (SSI) program for low-income aged and disabled individuals, which is part of the Income Security function (see Chapter 23). In addition, the agency provides services that support the

Medicare program on behalf of the Health Care Financing Administration, which is part of the Medicare function (see Chapter 22).

SSA undertakes a variety of activities in administering its programs. These activities include issuing Social Security numbers, maintaining earnings records for wage earners and self-employed individuals, taking claims for benefits and determining eligibility, updating beneficiary eligibility information, educating the public about the programs, combating fraud, and conducting research, policy analysis and program evaluation. These activities are largely integrated across the various programs, allowing the agency to minimize duplication of effort and provide one-stop service to customers. SSA has also undertaken significant automation initiatives, which has enabled the agency to handle growing workloads even as its full-time equivalent staff declined by 19,000 between 1983 and 2000.

Chart 24-2. Covered Workers per Social Security Beneficiary



SSA has consistently earned high marks for management of its programs. In 1999, SSA earned an overall "A" grade in a comprehensive study of government management conducted by the Maxwell School of Citizenship and Public Affairs at Syracuse University and *Government Executive* magazine. The study graded all 50 State governments and 15 Federal agencies on the management systems critical to effective public service. SSA was awarded the highest marks among Federal agencies surveyed.

SSA's Performance Plan for 2001 includes a number of performance indicators that reflect the agency's goals of responsive programs, good customer service, efficiency and program integrity, and strengthening public understanding of Social Security. Like the agency's administrative activities, these goals cut across programs. SSA's broad goals and related performance measures for 2001 are described below.

Promoting responsive programs: SSA recognizes that its programs must reflect the interests of beneficiaries and society as a whole. Programs must evolve to reflect changes in the economy, demographics, technology, medicine, and other areas. Many DI and SSI beneficiaries with disabilities, for example, want to be independent and work. Many of them can work, despite their impairments, if they receive the support they need. Yet less than one percent of disabled beneficiaries in any given year actually leave SSA's programs due to work. One of SSA's strategic objectives is to shape the disability program in a manner that increases self-sufficiency.

- In 2001, the number of DI beneficiaries entering a trial work period will increase to 19,200, which is 20 percent more than the 1997 baseline of 16,000.

Last year, the President's budget included, and Congress enacted, the Ticket to Work and Work Incentives Improvement Act to help disabled beneficiaries enter or re-enter the workforce. This new law expands beneficiaries' choice of employment service providers, allows persons with disabilities to keep or obtain Federal health benefits when they enter, re-enter, or remain in the workforce, and authorizes SSA to carry out demonstration projects to identify effective ways

to help DI beneficiaries return to work. SSA began implementation of the new law in 2000, and the budget includes funding to continue and build on these activities in 2001.

Improving customer service delivery: Roughly three-quarters of SSA's total administrative budget is devoted to the day-to-day work generated by requests for service from the general public. Much of this work takes the form of determining eligibility for benefits. The time required to process benefit claims is affected by the design of the eligibility determination procedure, as well as by the level of resources earmarked for claims-processing activities and the number of claims received.

- In 2001, the average processing time for initial disability claims will be 117 days, an increase from an estimated 104 days in 1999.

Improving SSA's disability claims process is one of the Administration's Priority Management Objectives for 2001. SSA is operating a streamlined disability eligibility determination process on a prototype basis in 10 States. In the prototype, SSA eliminated a repetitive second step in the process and used the resulting administrative savings to improve the initial step of the process.

While initial claims are expected to take a little longer in the new process, the elimination of the second step will substantially shorten the overall process for most claimants. The accuracy rate of initial decisions is also expected to improve. SSA's Office of Hearings and Appeals is also implementing changes to improve efficiency and reduce case processing times.

- In 2001, the average processing time for all types of hearings will be 208 days, down from 316 days in 1999.

In combination, the changes at the initial and hearings stages are expected to improve service and decision accuracy, and reduce overall processing times for disability claimants. Because the new disability claims process will not be fully implemented in 2001, further improvements in agency performance are expected in future years.

- SSA will maintain its current performance level of processing 83 percent of OASI claims by the time the first regular payment is due or within 14 days from the effective filing date, if later.
- SSA will ensure that callers gain access to the toll-free 800 number within five minutes of their first call 92 percent of the time, which is equivalent to the projected access rate for 2000.

Increasing operational efficiency and program integrity: The budget includes approximately \$1.7 billion for activities undertaken by SSA to ensure the integrity of records and payments. These activities include reviewing claimants' eligibility for continued benefits, collecting debt, detecting overpayments, and investigating and deterring fraud.

- In 2001, SSA will maintain its current performance level of a 99.8 percent accuracy rate for OASI payments.

SSA is in the midst of a seven-year plan to eliminate the backlog of Continuing Disability Reviews (CDRs) that built up prior to 1996. SSA expects to complete 63 percent of its plan by the end of 2000. This concentrated effort helps increase public confidence in the integrity of SSA's disability programs by ensuring that only people who continue to be disabled receive benefits. Over the life of the plan, SSA expects to realize program savings of about \$6 for each \$1

spent conducting CDRs. The budget includes the funds necessary to keep the plan on schedule.

- By the end of 2001, SSA will have completed 83 percent of its plan for eliminating the backlog of Continuing Disability Reviews. SSA expects to eliminate the backlog entirely in 2002.

Strengthening public understanding of Social Security programs: The budget includes more than \$100 million for the development, production and distribution of products to educate the public about Social Security benefits and Social Security's larger impact on society. SSA conducts an annual survey to measure public understanding of Social Security programs and issues and undertakes a variety of activities to increase public awareness.

- In 2001, 70 percent of the public will be knowledgeable about Social Security programs, an increase of 15 percentage points above the 1999 baseline of 55 percent.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits only when their overall income, including Social Security, exceeds certain income thresholds. The exclusion of Social Security income below these thresholds reduces total income tax revenue by \$26 billion in 2001 and \$136 billion from 2001 through 2005.