TABLE V-8. (Continued)

Benefits Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Average Gain
		Widowers			
Total	3,810	10,330	6.7	1,660	1,440
Below $7,500	1,010	6,570	13.8	640	1,240
$ 7,500 - $10,000	1,180	9,550	9.8	630	1,560
$10,000 - $12,500	850	11,650	4.9	290	1,540
$12,500 and Over	760	15,030	1.7	100	1,720
		Divorced Men			
Total	4,360	9,760	2.1	590	1,450
Below $7,500	1,200	6,070	6.1	310	1,350
$ 7,500 - $10,000	1,380	8,970	2.6	200	1,610
$10,000 - $12,500	920	11,260	1.1	70	1,460
$12,500 and Over	860	14,570	0.2	10	1,180

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. Beneficiaries depicted in this table are age 62 or older.

b. Beneficiaries are considered to have gained or lost if their benefits under the plan would be at least 5 percent higher or lower than their benefits under current law in the simulation year.

c. Relative to benefit under current law.

TABLE V-9. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER PACKAGE C (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Benefits Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/	
				Number	Average Gain
Widows					
Total	15,320	9,980	8.6	6,200	1,910
Below $7,500	4,730	6,690	16.3	2,660	1,650
$ 7,500 - $10,000	4,790	9,770	11.3	2,230	2,080
$10,000 - $12,500	3,630	11,790	5.9	1,050	2,180
$12,500 and Over	2,160	14,620	1.8	250	2,030
Divorced Women with Deceased Ex-Spouses					
Total	6,400	9,200	11.6	3,410	1,770
Below $7,500	2,850	6,910	21.4	2,120	1,620
$ 7,500 - $10,000	1,950	9,630	10.8	930	1,930
$10,000 - $12,500	1,030	11,710	5.8	300	2,120
$12,500 and Over	570	14,600	2.1	60	2,540
Other Divorced Women					
Total	2,930	7,170	15.8	1,420	2,010
Below $7,500	2,310	6,470	20.3	1,250	2,010
$7,500 and Over	620	9,760	5.9	160	2,080

(Continued)

TABLE V-9. (Continued)

Benefits Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/	
				Number	Average Gain
		Widowers			
Total	3,810	10,450	7.9	2,060	1,270
Below $7,500	1,010	6,590	14.3	670	1,190
$ 7,500 - $10,000	1,180	9,600	10.4	760	1,330
$10,000 - $12,500	850	11,780	6.1	370	1,310
$12,500 and Over	760	15,340	3.9	250	1,210
		Divorced Men			
Total	4,360	9,820	2.8	840	1,180
Below $7,500	1,200	6,080	6.2	410	1,000
$ 7,500 - $10,000	1,380	9,010	3.2	280	1,150
$10,000 - $12,500	920	11,320	1.7	90	1,490
$12,500 and Over	860	14,760	1.4	60	2,140

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. Beneficiaries depicted in this table are age 62 or older.

b. Beneficiaries are considered to have gained or lost if their benefits under the plan would be at least 5 percent higher or lower than their benefits under current law in the simulation year.

c. Relative to benefit under current law.

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TABLE V-10. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER PACKAGE D (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Benefits Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Average Gain
		Widows			
Total	15,320	10,020	8.9	8,430	1,450
Below $7,500	4,730	6,580	14.4	3,120	1,240
$ 7,500 - $10,000	4,790	9,750	11.1	2,920	1,550
$10,000 - $12,500	3,630	12,010	7.8	1,840	1,660
$12,500 and Over	2,160	14,760	2.8	550	1,400
		Divorced Women with Deceased Ex-Spouses			
Total	6,400	9,200	11.6	3,540	1,700
Below $7,500	2,850	6,650	16.8	1,650	1,650
$ 7,500 - $10,000	1,950	9,810	12.9	1,260	1,710
$10,000 - $12,500	1,030	11,980	8.2	490	1,830
$12,500 and Over	570	14,760	3.2	150	1,600
		Other Divorced Women			
Total	2,930	7,170	15.8	1,420	2,010
Below $7,500	2,310	6,470	20.3	1,250	2,010
$7,500 and Over	620	9,760	5.9	160	2,080

(Continued)

TABLE V-10. (Continued)

Benefits Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Average Gain
Widowers					
Total	3,810	10,330	6.7	1,660	1,440
Below $7,500	1,010	6,570	13.8	640	1,240
$ 7,500 - $10,000	1,180	9,550	9.8	630	1,560
$10,000 - $12,500	850	11,650	4.9	290	1,540
$12,500 and Over	760	15,030	1.7	100	1,720
Divorced Men					
Total	4,360	9,770	2.3	630	1,470
Below $7,500	1,200	6,130	7.1	340	1,420
$ 7,500 - $10,000	1,380	8,970	2.7	200	1,580
$10,000 - $12,500	920	11,260	1.1	70	1,460
$12,500 and Over	860	14,570	0.2	10	1,180

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. Beneficiaries depicted in this table are age 62 or older.

b. Beneficiaries are considered to have gained or lost if their benefits under the plan would be at least 5 percent higher or lower than their benefits under current law in the simulation year.

c. Relative to benefit under current law.

current law. Thus, most of them are better off if they receive a worker benefit based on both their own and their spouses' earnings. Widows, on the other hand, mostly receive benefits as survivors under current law. They gain from inheritance only if the worker benefit based on combined earnings is enough larger than a survivor benefit based on the deceased spouse's earnings to offset the loss of the favorable treatment of reductions for early retirement.

Divorced men would receive relatively small gains under all four packages, with the increases ranging from 2.1 percent for Package B to 2.8 percent for Package C. Only a small minority would gain from the divorced-spouses' options, whereas the survivor options would provide increases of at least 5 percent for about 13 percent of all divorced men--Packages B and D--to 19 percent--Packages A and C. The patterns of gains by benefit level would differ significantly, however. The inheritance of earnings credits would provide larger dollar gains--for those who gained--to those with higher benefit amounts. In contrast, the gainers under the combined-benefit-survivors' option would be largest for those with benefits between $7,500 and $10,000, although because of the small number of divorced men in the simulated elderly population there is reason to question the reliability of these data.

Compatibility of the Packages with Earnings Sharing

The compatibility of the incremental options with earnings sharing plans should also be addressed if these options are to be considered either as part of the transition to earnings sharing or as interim measures to improve benefits for certain beneficiary groups while earnings sharing proposals are being fine-tuned. Certain incremental options would work better with a future system of benefits based upon shared earnings than would others. For example, because inheritance of earnings credits is a characteristic of each of the earnings sharing plans evaluated by HHS, passage of such a measure before the enactment of an earnings sharing system would facilitate any subsequent enactment of earnings sharing. In contrast, the option that would pay surviving spouses two-thirds of the sum of their own benefits and their survivors' benefits would not ease the transition from current law to earnings sharing. Other examples might include options for changing benefits for working spouses and dropout years that were contained in the HHS report. Indeed, such changes might create new groups of "losers" to be considered in any transition to earnings sharing.

CONCLUSION

Incremental changes in the Social Security program offer an alternative approach for coping with many of the concerns that have led to calls for earnings sharing. As with earnings sharing, however, this strategy would have both advantages and disadvantages. Incremental options offer, to some degree, the means to target benefit increases on some beneficiary groups about whom there is substantial concern. Options that would increase the benefits of some recipient groups would, however, require that either taxes be raised or benefits for others be lowered relative to current law. If benefits were to be reduced, this could be done by lowering the basic benefit level, relative to that under current law, by a relatively small amount or by eliminating or significantly reducing the benefits received by small beneficiary groups.

On the other hand, incremental options would continue to maintain the disparate treatment of certain types of beneficiaries under current law. Moreover, the compatibility of the incremental options and earnings sharing plans might be an important issue to be addressed in formulating future changes in the program, and might limit the range of incremental options to be considered. Finally, interactions between some potential changes might yield new disparities in benefits even while they mitigated others.

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APPENDIXES

APPENDIX A

BUDGETARY IMPACT OF THE HHS PLANS

This appendix presents several different measures of the costs of the earnings sharing alternatives contained in the Health and Human Services (HHS) report over the 75-year projection period. It also discusses the sensitivity of the cost estimates to variations in both economic and demographic factors.

Depending on how they are specified and how transitions are implemented, earnings sharing plans and the incremental alternatives might increase costs, generate savings, or have no net budget impact at all. The HHS report contains estimates of Social Security program costs under various earnings sharing proposals that range from a reduction of less than 1 percent of total benefit payments to an increase of almost 8 percent. HHS estimates that the costs of its incremental options would range from negligible amounts--for the options to modify the eligibility requirements for disabled widow(er)s' benefits--to a 10 percent increase under the option to modify the dual entitlement provisions of current law. 1/ On the other hand, benefit payments under the SSI, Food Stamp, and Medicaid programs probably would fall somewhat because of the increases in Social Security benefits experienced, on average, by those who will have low incomes under current law.

MEASURING COSTS FOR SOCIAL SECURITY

There are many ways to express the costs of the current Social Security program and of options that would change it. The measure traditionally used--at least for long-range projections--is a percentage of the wage base subject to the Social Security payroll tax. This "percent of taxable payroll" measure is used to allow a determination of the payroll tax rate necessary

1. Under current law, spouses may only receive spouses' or surviving spouses' benefits when they exceed their own workers' benefits. That is, there is a dollar-for-dollar offset in current law between the spouse's benefit and the worker's benefit. This option would reduce the entitlement to auxiliary benefits by $1 for every $2 of the worker's benefit.

to finance a particular program or option. It eliminates the problems of evaluating costs over a 75-year period when even low rates of inflation can make future costs appear very large relative to current outlays.

Since costs expressed as percents of taxable payroll may not be very meaningful to the public, other measures may be useful. One alternative is to transform the estimated costs of the options into percentage changes in the projected costs of the OASDI program under current law. A second alternative is to display the estimated costs of the options in dollars in relation to the payroll tax base in 1984--that is, the additional costs of the options in 1984 had the proposals been fully in effect. Each of the two alternatives provides an easily understood guide to the additional burden on generations of taxpayers should earnings sharing or other changes raise future federal obligations.

Two different sets of cost estimates are presented in this appendix. First, the costs of the various plans estimated by the Social Security Administration's Office of the Actuary are discussed. These are the only estimates in this report that refer to costs over the entire 75-year projection period. Second, the relative increases in benefits in 2030 as simulated under the DYNASIM model are reviewed. 2/ The simulation results refer only to 2030 and therefore cannot be generalized to calculate comparable 75-year estimates. None of the estimates includes the administrative costs of implementing the options. For some of the options, such costs may be substantial.

The estimated benefit effects from the simulation differ somewhat from those that can be inferred from the Actuary's cost projections. These differences are largely the result of different distributions of the types of beneficiaries assumed by the Actuary and produced by DYNASIM. For example, among women beneficiaries in 2030, the Actuary assumes nearly one-half would be entitled to only retired worker benefits whereas the DYNASIM figure is closer to one-third. On the other hand, DYNASIM has about twice as many female beneficiaries whose own worker benefits would be less than those to which they would be entitled either as spouses of retired workers or as surviving spouses.

While it is impossible to determine at this time which distribution is a more appropriate assumption for 2030, it is virtually certain that the actual distribution in 2030 will differ from both. The staffs of the Office of the

2. See Appendix B for a description of DYNASIM.

Actuary and the Congressional Budget Office (CBO) are currently undertaking a review of the assumptions, but reconciliation of the results is likely to be a lengthy process.

COSTS OF EARNINGS SHARING PLANS

This section discusses the long-range costs of the earnings sharing plans as projected by the Office of the Actuary over the next 75 years, their simulation by CBO in 2030, and the timing of their impacts over the next 75 years.

Cost Estimates Produced by HHS

Table A-1 presents two measures of the long-range OASDI costs for the earnings sharing alternatives presented in the HHS report. One option--the Generic II plan--would result in savings of 0.04 percent of taxable payroll relative to current law. 3/ At the other extreme, the no-loser version of taxable earnings sharing would increase costs by 1.0 percent of payroll. The intermediate-cost earnings sharing options evaluated--Generic I and Modified I--would increase costs by between 0.35 percent and 0.73 percent of taxable payroll. 4/

Measuring HHS's estimated costs as the percent change in total Social Security outlays, rather than as percents of taxable payroll, indicates that these plans could reduce benefit costs by 0.31 percent--for Generic II--or increase them by about 7.7 percent--for the HHS version of a no-loser plan. Alternatively, if costs were expressed as dollars in terms of 1984 taxable payroll, the range of costs would be from a reduction of $0.6 billion--(-0.0004 times $1,597 billion)--to an increase of $16 billion (0.01 times $1,597 billion). 5/

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3. All of the long-range estimates appearing in this appendix, unless specifically noted, are based on the II-B demographic and economic assumptions of the 1984 *Trustees' Report*. The II-B set of assumptions is the more conservative of the two intermediate sets of assumptions, and the one most commonly cited as the basis for Social Security cost projections.

4. See Chapter IV for a description of the two plans.

5. For the most recent estimates of 1984 taxable payroll see Henry Ballantyne, "Long-Range Estimates of Social Security Trust Fund Operations in Dollars," *Actuarial Note 125* (Baltimore: Social Security Administration, April 1985).

TABLE A-1. ALTERNATIVE MEASURES OF COSTS OF EARNINGS SHARING OPTIONS

Plan a/	Period 1984 - 2008	2009 - 2034	2035 - 2058	Total 1984 - 2058
	Current Law as Percent of Taxable Payroll b/			
Outlays	10.54	13.02	15.29	12.95
Revenues	12.56	12.97	13.16	12.90
Difference	2.01	-0.05	-2.14	-0.06
	Change in Costs as Percent of Taxable Payroll			
Generic I	0.07	0.38	0.60	0.35
Generic II	-0.02	-0.06	-0.02	-0.04
Modified I	0.10	0.75	1.34	0.73
Modified II	0.03	0.37	0.76	0.39
No Loser c/	0.10	0.97	1.93	1.00
	Change in Costs as Percent of Current Law Benefits			
Generic I	0.66	2.92	3.92	2.70
Generic II	-0.19	-0.46	-0.13	-0.31
Modified I	0.95	5.76	8.76	5.64
Modified II	0.28	2.84	4.97	3.01
No Loser c/	0.95	7.45	12.62	7.72

SOURCES: HHS report; *1984 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*; and Congressional Budget Office calculations.

a. See Chapter IV of this report and Chapters III-V of the HHS report for descriptions of the various plans.

b. Components may not sum to totals because of rounding.

c. The No Loser plan guarantees individual recipients against loss of current law benefits.

To compare those costs with those of recently enacted changes in Social Security, the Generic I plan would increase costs by slightly more than the reduction in benefits that was estimated to result from the six-month delay in the cost-of-living adjustment (COLA) enacted as part of the Social Security Amendments of 1983. The Department of Health and Human Services has estimated that the increased costs as a percent of taxable payroll for enacting the Modified I plan would be very close to the estimated savings from the increase in the retirement age enacted in 1983. Such increases in costs are therefore comparable to the cost impacts of restoring some of the benefit reductions enacted as part of the 1983 Amendments.

On the other hand, the OASDI trust funds were projected in 1984 to operate with a small deficit over the 75-year projection period--0.06 percent of taxable payroll under the II-B assumptions. 6/ Adding any costs without a commensurate rise in trust fund income would increase the likelihood that future legislation would be necessary to increase revenues, reduce benefits, or both, in order to restore financial balance in the program. Therefore, even though the most expensive earnings sharing plan would be expected to raise total program costs by less than 8 percent over the 75-year projection period, enactment would increase the chances that other difficult choices concerning Social Security financing would also need to be addressed. Moreover, as discussed in further detail below, the timing of the cost increases would be important, with the costs of the earnings sharing options being much higher in later years than in the relatively near future.

Cost Estimates Based on the Simulation Model

Table A-2 presents CBO's simulations of the percentage changes in benefit costs for the earnings sharing plans presented in the HHS report, as well as for the variants analyzed by CBO. The latter include a plan specified by the Technical Committee on Earnings Sharing (Modified III) and one with a current law guarantee for couples and unmarried people, rather than a guarantee based on individuals as in the HHS report (Generic IV).

The simulation results indicate that each of the plans, except the Generic II plan, would raise total benefit payments in 2030 relative to current law, with the increases ranging from about 1 percent to 8 percent.

6. The most recent estimate, presented in the 1985 *Trustees' Report*, showed a long-range deficit under the II-B assumption of 0.41 percent of taxable payroll.

TABLE A-2. EFFECTS OF EARNINGS SHARING OPTIONS ON BENEFITS PAID TO ELDERLY AND NONELDERLY RECIPIENTS IN THE YEAR 2030 a/

Option	Percent Change in Benefits Paid in 2030 Relative to Current Law: Elderly b/	Nonelderly	Total
Generic I	1.0	8.3	1.6
Generic II d/	-3.1	7.5	-2.2
Modified I	2.6	25.4	4.5
Modified II	-1.5	24.9	0.8
Modified III c/	2.0	24.8	4.0
Generic IV c/	4.1	22.3	5.7
No Loser d/	6.4	24.9	8.0

SOURCE: Congressional Budget Office simulations.

a. See the text for descriptions of the options.

b. Defined as recipients age 62 or older.

c. Plan appears in CBO evaluation but not in HHS report.

d. Plan appears in HHS report but not in CBO evaluation.

The Generic II plan would actually reduce program benefits in 2030 by 2.2 percent. It should be noted, however, that the simulated costs for the nonelderly are much less reliable than for the elderly, because DYNASIM does not simulate the disabled population very accurately. Comparing only the costs for beneficiaries age 62 and older, the range would be from a reduction of 3.1 percent to an increase of 6.4 percent.

In addition to Social Security costs, the interactions between Social Security and other tax and transfer programs would likely result in changes in the rest of the federal budget. For example, in 1983, over 5 percent of Social Security beneficiaries also received benefits under the Supplemental Security Income (SSI) program. 7/ In the same year, about 7 percent of elderly recipients lived in households that also received benefits from the Food Stamp program. 8/ Changes in Social Security that increased or decreased payments to low-income beneficiaries would therefore be likely to result in lower or higher expenditures for the SSI and Food Stamp programs. Because the earnings sharing plans evaluated here would have minimal impact on benefits until after the turn of the century, it is difficult to ascertain whether they would have a measurable effect on the means-tested programs. The substantial real-income growth that is incorporated in the II-B assumptions would be expected to lead to significantly lower outlays from the means-tested programs as they are now structured. On the other hand, substantial growth in income might lead to legislative changes that expanded these programs' benefits or liberalized their eligibility criteria to reflect rising standards of living.

Similarly, revenues would be reduced by any changes that resulted in a redistribution of benefits away from higher-income recipients because the partial taxation of Social Security benefits then would affect fewer recipients.

Timing of Costs

Also important when considering the various proposals is the distribution of their costs and revenues over time. Under the 1984 Trustees' Report II-B assumptions, over the next 30 to 35 years the trust funds will benefit both

7. U.S. Department of Health and Human Services, *Social Security Bulletin, Annual Statistical Supplement, 1983*, Table 159 (p. 231).

8. U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 14, "Characteristics of Households and Persons Receiving Selected Noncash Benefits: 1983" (Washington, D.C.: U.S. Government Printing Office, 1985).

from favorable demographic conditions and from the scheduled 1988 and 1990 payroll tax rate increases, thereby allowing them to experience annual excesses of tax income over outgo. These surpluses are projected to become annual deficits beginning around 2020 and to continue to worsen as the "baby boom" retires. As a result, the substantial reserves built up in the trust fund accounts during the period before 2020 are expected to decline as a percentage of the annual benefit payments beginning about 2015, and to decline in absolute terms beginning about 2050. 9/ Consequently, by 2060, trust fund balances will be nearly depleted. 10/

The cost impact of the various earnings sharing proposals would grow over time, with costs being substantially higher in the last 25 years of the projection period than in the first 25 years (see Table A-1). For example, under the Generic I plan, the costs would grow from less than 0.1 percent of taxable payroll during the 1984-2008 period to 0.6 percent of payroll in the 2035-2058 period. Similarly, the No Loser plan evaluated by HHS would be expected to raise costs by 0.1 percent of taxable payroll during the next 25 years and by 1.93 percent in the last 25-year segment of the projection period.

As a result, under all but the Generic II plan, the overall costs of the Social Security cash benefits program would rise slightly in the relatively near future but much more in later periods. The projections of current law costs show outlays as a percent of payroll rising by about 45 percent from the 1984-2008 period to the 2035-2058 period. Under Generic I the increase would be closer to 50 percent; and under the No Loser plan, costs would grow by about 62 percent between the two 25-year periods. In contrast, current law revenues are projected to grow much more slowly, rising from 12.56 percent of taxable payroll for the 1984-2008 period to 13.16 percent in the 2035-2058 segment of the projection period--an increase of only 5 percent.

Under these projections, the various earnings sharing plans would accelerate the depletion of the trust funds expected to occur in the middle of the twenty-first century. Current law OASDI outgo is expected to be about 16 percent higher than trust fund revenues in the 2035 to 2058 period. The Generic I, Modified I, and No Loser earnings sharing plans would

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9. During the period in which the trust funds build up reserves, Social Security will become the owner of massive amounts of U.S. Treasury securities. As these securities are redeemed, the Treasury will have either to sell more securities to the public or raise more revenues, if other spending is to be maintained.

10. Under the II-B assumptions of the 1985 Trustees' Report, the OASDI fund will be depleted in 2049.