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Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

SOCIAL SECURITY BENEFIT INDEXING ACT

The President announced today that he is proposing the Social Security Benefit Indexing Act to correct a flaw which has existed in the Social Security system since 1972. While eliminating half of the estimated long-range financial deficit facing the system, his proposal would continue to increase benefits in accord with inflation.

If his proposal is not enacted, the flaw, an unintended over-adjustment for inflation, will undermine the sound principles upon which Social Security has been built. This will produce intolerable costs over the next seventy-five years and threaten the ability of the system to pay retirees the benefits they have earned.

In a Message to the Congress on February 9, 1976, the President described this proposal:

> . . . to avoid serious future financing problems I will submit later this year a change in the Social Security laws to correct a serious flaw in the current system. The current formula which determines benefits for workers who retire in the future does not properly reflect wage and price fluctuations. This is an [inadvertence] which could lead to unnecessarily inflated benefits.

I. The "Flaw" in the Current System

Prior to 1972, all increases in Social Security benefits required Congressional action. The 1972 Social Security Amendments built into the law automatic cost-of-living escalators. For those already receiving benefits, these provisions guarantee that their benefits will keep pace with growth in the Consumer Price Index.

The provisions were also intended to protect current workers against inflation through annual modifications in the formula used to compute initial benefits. Only recently have the full implications of these modifications been recognized. They result in a significant overadjustment for inflation, causing initial benefits to grow over time to the point where a great many new retirees would receive benefits in excess of the highest wages they ever earned.

These inflated benefits would place severe long-term financial pressures on Social Security. Adding to the long-range cost problem is the fact that, as currently estimated, U.S. fertility rates are expected to result in a declining ratio of workers (Social Security contributors) to retirees (Social Security beneficiaries).

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The 1976 Social Security Trustees Report estimates that the long-range costs of the current system would exceed projected revenues by an average annual amount of 8% of covered payroll.

II. The Administration Proposal

The Administration proposal would eliminate half of the estimated long-range financial deficit, and yet continue the system's commitment to increase benefits in accord with inflation. The formula is designed to approximate as closely as possible the benefit amounts payable under present law in January, 1978 (the month the revised formula is expected to go into effect).

A. Benefits

A useful tool for comparing the proposed formula with current law is "replacement rates" (i.e., initial benefits as a percent of preretirement earnings). Table 1 illustrates how the proposed law stabilizes replacement rates at current levels, and prevents the unnecessary escalation caused by the flaw in existing law. For example, a low wage earner would continue through time to receive benefits replacing approximately 62% of preretirement earnings. This compares to benefits under current law which would, if unchecked, grow to 100% of preretirement earnings by 2020 and to 119% by 2050. (See Table 1 for additional comparisons of persons with average and maximum wages).

B. Long-Range Costs

The proposed law would eliminate approximately half of the estimated long-range deficit projected for the system under current law. Tables 2 and 3 illustrate how this occurs over the next seventy-five years.

C. Annual Cost-of-Living Increases

As under present law, all beneficiaries would receive automatic cost-of-living increases in their benefits.

D. Remaining Long-Range Financial Pressures

Seventy-five year estimates are inherently speculative and quite complex -- dependent upon assumptions of inflation, economic growth, the size and makeup of families, etc. Nevertheless, current projections show a sizeable financing problem after the turn of the century even with the Administration proposal (See Tables 2 and 3). The Administration proposal would help stabilize the system against variations in the economy, thus providing sufficient time over the next several years to analyze and correct for the remaining financial pressures on the system's future.

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TABLE 1

Projected Replacement Rates
for Illustrative Cases of Regular Workers with Earnings
at Low, Average, and Maximum Levels 1/

Initial Benefits as a Percent of Final Year Earnings

Year of Entitlement at Age 65	Low Earnings		Average Earnings		Maximum Earnings	
	Present Law	Proposal	Present Law	Proposal	Present Law	Proposal
1976	63%	63%	44%	44%	33%	33%
1980	62	61	44	43	34	33
1990	66	62	47	44	34	33
2000	78	62	51	44	37	34
2010	92	62	55	44	40	35
2020	100	62	59	44	43	36
2030	108	62	62	44	44	36
2040	114	62	64	44	46	36
2050	119	62	66	44	47	36

1/ The 1975 earnings levels of $3,400 for low earners, $8,600 for average earners, and $14,100 for maximum earners are adjusted annually according to the intermediate set of assumptions used in the 1976 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds.

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TABLE 2

Comparison of OASDI Long-Range Cost
Present Law and Administration Bill
(in Percent)

Year	Expenditures as Percent of Taxable Payroll 1/		
	Present Law	Bill	Difference
1980	10.68	10.70	-.02
1990	12.06	11.82	.24
2000	13.41	12.38	1.03
2010	15.99	13.41	2.58
2020	21.29	16.46	4.83
2030	26.03	18.92	7.11
2040	27.45	18.87	8.58
2050	28.59	18.77	9.82
25-year average:			
1976-2000	11.81	11.53	.28
2001-2025	17.95	14.60	3.35
2026-2050	27.04	18.82	8.22
75-year average:			
1976-2050	18.93	14.98	3.95

1/ Based on the assumptions of alternative II in the 1976 OASDI Trustees Report.

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TABLE 3

Comparison of OASDI Actuarial Balance
Present Law and Administration Bill
(in Percent of Taxable Payroll)

Item	Average for Period 1/ Present Law	Bill	Difference
1st 25-year period (1976-2000)			
Expenditures	11.81	11.53	.28
Tax Rate	9.90	9.90	--
Difference	-1.91	-1.63	.28
2nd 25-year period (2001-2025)			
Expenditures	17.95	14.60	3.35
Tax Rate	11.10	11.10	--
Difference	-6.85	-3.50	3.35
3rd 25-year period (2026-2050)			
Expenditures	27.04	18.82	8.22
Tax Rate	11.90	11.90	--
Difference	-15.14	-6.92	8.22
Total 75-year period (1976-2050)			
Expenditures	18.93	14.98	3.95
Tax Rate	10.97	10.97	--
Difference	-7.96	-4.01	3.95

1/ Based on the assumptions of alternative II in the 1976 OASDI Trustees Report.

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