The Actuary

February 1981 – Volume 15, No. 2

Vintage Year

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avoid exhaustion of the fund some time in the 1980's.

(2) *General Fund Borrowing.* If inter-fund borrowing seems inadequate, many will view general fund borrowing as the next best remedy. Present projections suggest that amounts borrowed from the general fund of the U.S. Treasury to permit continuing benefit payments during the early 1980's can be repaid in the late 1980's, though this is by no means certain. Clearly, general fund borrowing, likely to be recommended by the National Commission on Social Security, remains only a limited solution; the HI Fund is likely to be exhausted in the 1990's, and the OASI and DI Funds, even though combined, will apparently run out of money after the turn of the century.

(3) *General Revenue Financing.* The 1979 Advisory Council recommended that HI be entirely financed from general revenues, and that half the tax rates presently scheduled for HI be added to that for OASDI. The rationale for general revenue financing of HI is that its benefits are not wage-related as are OASDI benefits. The National Commission is likely to recommend somewhat more limited general revenue financing of HI. There remains, though, powerful opposition to any general revenue financing of Social Security on the grounds that the payroll tax mechanism is an important element in deterring undesirable program expansion.

(4) *Raising Normal Retirement Age.* The 1979 Advisory Council recommended serious consideration of promptly enacting an increase in the normal retirement age, to become effective after the turn of the century. Both the National Commission on Social Security and the President's Commission on Pension Policy are likely to make similar recommendations. Most proposals being discussed call for gradual transition from age 65 to normal retirement at age 68, beginning for those reaching 65 around the turn of the century and completing 10-20 years later. The minimum early retirement age, now 62, is likely to be increased simultaneously to 65. This is a long debated change whose time may finally have come.

(5) *Change In Indexing.* There is growing recognition that a cause of short-range financing instability is that OASDI benefit cost grows proportionately to CPI increase, while revenues, except when tax rates change, grow in proportion to growth in covered wages. Historically, wages have grown faster than the CPI, but this has not been the case in the latter part of the 1970's and is unlikely to be so for at least several more years. It has been suggested that some cap be placed on the CPI adjustment for existing beneficiaries.

Perhaps the most palatable proposal politically would be to make the annual adjustment equal to the lesser of the CPI increase or the increase in covered wages per worker in the previous year; there might be a catch-up provision so that when wage growth resumed its traditional pattern of outstripping CPI increase, the lost CPI adjustments would be restored. Such a provision can be rationalized politically on the grounds that beneficiaries are being treated no less generously than current workers in terms of the purchasing power of their benefits.

(6) *Move Toward Universal Coverage.* Federal employees are not covered by Social Security; employees of state, county and local subdivisions and certain non-profit organizations are covered on a voluntary election. Requiring coverage for these groups has been advocated on grounds of equity, also to help meet the program's short-range financing problems. But the lobby opposing this is extremely powerful, particularly with respect to current employees, and the constitutionality of requiring political subdivision employees and the non-profit organization employees to be covered is in question. In my opinion, legislation bringing future Federal employees under Social Security stands a reasonably good chance.

Other possible changes undoubtedly will be discussed this year, but with less likelihood, I think, of being legislated. These include: (1) elimination of the retirement test, (2) switch from wage-indexing to CPI-indexing of wage records and of the PIA benefit formula, and (3) benefit formula changes designed to increase emphasis on individual equity as opposed to social adequacy. An example of (3) is phasing out spouses' benefits whose rationale is that increased female work-force participation will cause most spouses ultimately to be insured in their own right based on their own wage records.

For Social Security watchers, 1981 may be a banner year! □

Actuarial Meetings

Feb. 17, Chicago Actuarial Club
Mar. 17, Chicago Actuarial Club

CONGRESS KILLED "FICA-II"

by Robert J. Myers

A few years ago, some management firms began to tout the savings that an employer could make by reducing employees' wages by all or a portion of their Social Security payroll tax and then paying this tax for the employees. This procedure, which had been little used through the years except by householders employing domestic workers, was dubbed "FICA-II."

The catch in this was that although take-home pay was not decreased, OASDI earnings credits would thus be lowered, as also would other potential public benefits, and even in some cases employer-sponsored benefits. A major objection, affecting those not using the plan as well as those using it, was the resulting erosion of Social Security tax receipts, creating eventually a need for higher contributions than would otherwise have been sufficient.

All who testified at a House Ways and Means Committee hearing on this matter in late 1979 recommended that this loophole be elmininated, as also has the Advisory Council on Social Security, the National Commission on Social Security, and President Carter in his January 1980 Budget Address. All agreed that it should continue to be available for domestic workers. Finally, in December 1980, legislation eliminating FICA-II was enacted. Groups permitted to continue using it are:

- Domestic and farm workers;
- State and local governments, temporarily through 1983 if they had been using the plan on October 1, 1980.

As far as I know, all prominent actuarial consulting firms and many individual actuaries consistently viewed this iniquitous manipulation of Social Security with disapproval. □