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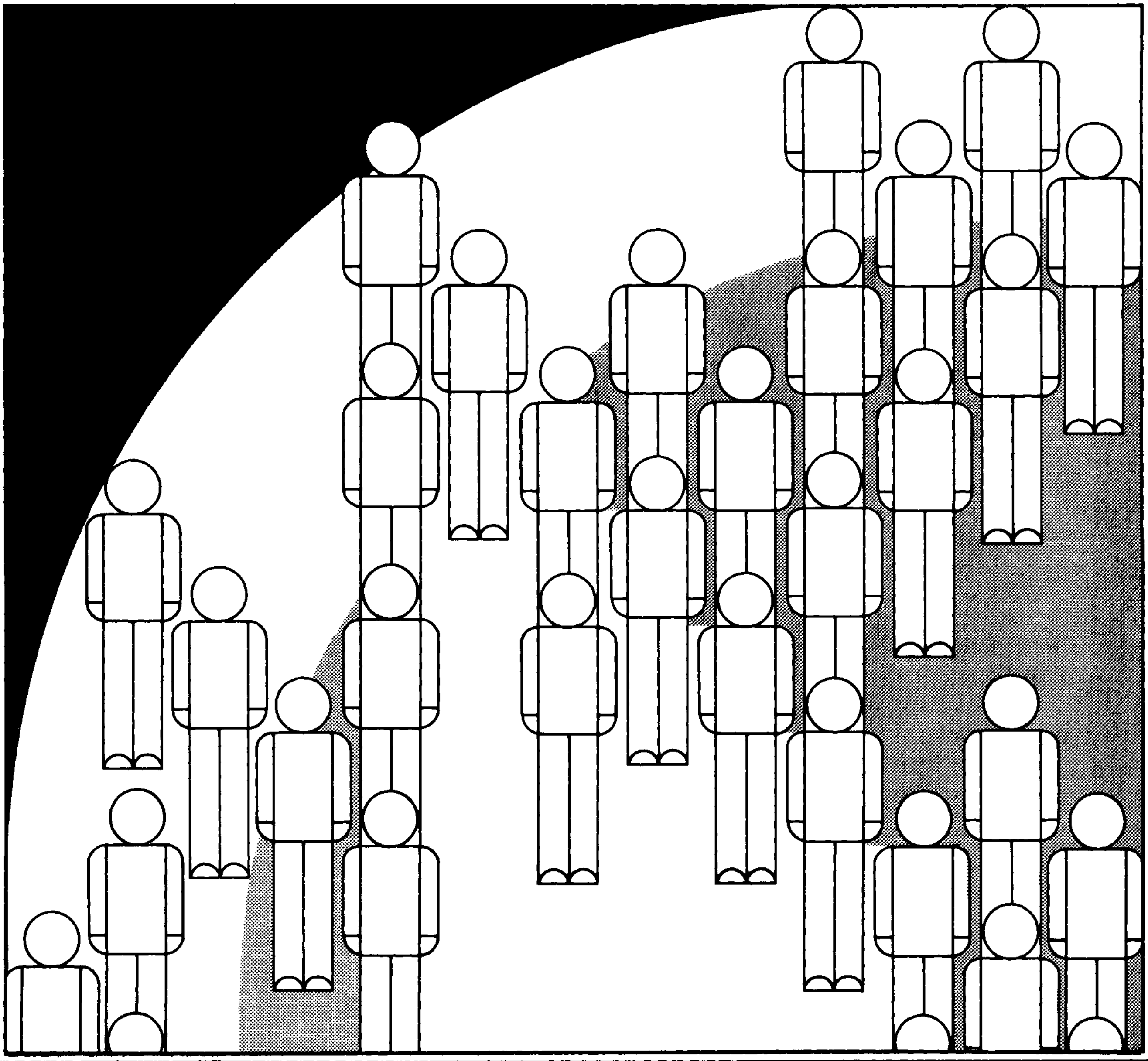
Earnings Sharing Options for the Social Security System



CBO STUDY

EARNINGS SHARING OPTIONS FOR THE SOCIAL SECURITY SYSTEM

The Congress of the United States
Congressional Budget Office

PREFACE

A number of proposals have been made that would combine the earnings of husbands and wives and divide them equally for the purpose of calculating Social Security benefits--"earnings sharing." The Social Security Amendments of 1983 directed the Secretary of Health and Human Services (HHS) to prepare a report on earnings sharing, which was submitted last year. The Amendments also directed the Congressional Budget Office (CBO) to examine the methodologies, recommendations, and analyses used in the HHS report. This report to the Senate Committee on Finance and to the House Committee on Ways and Means responds to this requirement. In accordance with CBO's mandate to provide objective and impartial analysis, it contains no recommendations.

Ralph E. Smith and Richard A. Kasten of CBO's Human Resources and Community Development Division, and Paul R. Cullinan of the Budget Analysis Division, conducted this study under the general supervision of Nancy M. Gordon and Martin D. Levine. Many people provided valuable comments, including Dorothy Amey, David C. Lindeman, Alicia H. Munnell, Frank J. Sammartino, Neil M. Singer, Lawrence H. Thompson, Sheila R. Zedlewski, and staff of the Social Security Administration in the Office of Legislative and Regulatory Policy and in the Office of the Actuary. The manuscript was edited by Francis S. Pierce. Ronald Moore typed the several drafts, provided editorial assistance in the draft stages, and prepared the report for publication.

Rudolph G. Penner
Director

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SUMMARY

Almost 37 million people now receive Social Security cash benefits. Many of them receive their benefits as spouses, ex-spouses, or survivors of workers covered by Social Security. For example, a wife can receive a spousal benefit equal to up to 50 percent of her husband's basic benefit; if she is a widow, she can receive up to 100 percent of the amount to which he would have been entitled. In general, the total amount that can be received by someone who is eligible for benefits both as a worker and as an "auxiliary" of a worker equals the higher of the two amounts. 1/

This treatment of couples in which both spouses have worked and paid Social Security payroll taxes for substantial portions of their lives has come under criticism as more married women pursue careers. Because married women can receive benefits as spouses based on their husbands' earnings, they often receive little, if any, additional retirement benefits from their own (and their employers') Social Security taxes, compared with the amounts they would receive based on their husbands' earnings. Two-earner couples generally receive lower total retirement benefits than one-earner couples with the same total covered earnings and similar payroll tax contributions, because a spouse's benefit is provided for spouses who had little or no attachment to the paid labor force. Moreover, survivors of two-earner couples generally receive less than survivors of one-earner couples with the same total covered earnings.

Concern has also been raised about the adequacy of benefits for many elderly unmarried women. Elderly women are more likely to rely on Social Security benefits for the majority of their incomes than are married couples and elderly men. In 1984, 2.0 million of the 3.3 million poor Social Security beneficiaries age 62 and over were unmarried women.

1. Divorced spouses can receive benefits as if still married, if the marriages lasted at least 10 years, if they are not married at the time they become eligible for benefits, and if they meet the other eligibility requirements. All spouses, whether men or women, are eligible for auxiliary benefits; at times, for ease of exposition, explanations are in terms of wives, divorced women, or widows.

A number of proposals have been made to change the rules by which Social Security benefits are calculated. Some would credit each spouse with half of the couple's combined covered earnings for the purpose of determining Social Security benefits. This approach is referred to as "earnings sharing."

The Social Security Amendments of 1983 (Section 343) directed the Secretary of Health and Human Services (HHS) to prepare a report on earnings sharing and instructed the Congressional Budget Office (CBO) to report on "the methodologies, recommendations, and analyses used in the Secretary's report." The HHS report contains a detailed analysis of the potential effects of two specific earnings sharing plans and of several options for making the transition from the present benefit structure to one based on earnings sharing. A simulation model was used to depict the characteristics of the beneficiary population in the year 2030, thereby enabling HHS to estimate the effects on major beneficiary groups 40 years after earnings would have begun to be shared under the two earnings sharing plans it examined. Long-range costs were estimated by the Social Security Administration's Office of the Actuary. HHS also analyzed two dozen options other than earnings sharing that could be used to address one or more of the problems for which earnings sharing has been proposed. The HHS report made no recommendations. 2/

CBO has no criticism of the basic methodology used by HHS or of the way its methodology was applied. The microsimulation approach is the most appropriate method of estimating the potential effects on future beneficiaries of a major change in the Social Security system. Nonetheless, specific estimates are subject to a wide range of errors and interpretations. For example, it is impossible to predict accurately the values of the many variables, such as future economic and demographic trends, on which the estimates are based. This report by CBO, therefore, includes further analyses intended to complement those of HHS and to provide additional perspectives on its findings. For example, CBO examined several issues and options not addressed in the HHS report, including the sensitivity of some of the estimated effects of earnings sharing to alternative assumptions about women's future labor force activities and future divorce patterns.

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2. The report also discusses the potential effects of earnings sharing on the administration of the Social Security system and the concerns of various interest groups regarding the treatment of women under the present benefit structure. These aspects of the HHS report are not addressed in this report.

ISSUES

Throughout the evolution of the Social Security system, the benefit structure has maintained a number of key features and premises: that benefits should be related to covered earnings; that the benefit structure should be progressive, in the sense that the percentage of wages replaced should be higher for beneficiaries with low earnings histories than for beneficiaries with high past earnings; and that receipt of benefits should not be means-tested.

Earnings sharing proposals would maintain most of the basic features of the system. Because earnings credits accumulated by spouses during a marriage would be divided evenly between them for the purpose of computing entitlement to benefits, however, people would receive benefits based only on their own earnings records. This benefit structure would replace the current structure under which people can get workers' benefits based on their own records and can also qualify for benefits as spouses or surviving spouses based on the earnings records of their spouses or ex-spouses. The objectives of proponents include making the system, in their view, fairer in its treatment of two-earner couples and their survivors, and providing adequate benefits for divorced women, widows, and women who have taken time out of the labor force for child care.

Some opponents of earnings sharing agree with the criticisms of the current Social Security benefit structure, but are concerned that earnings sharing would be too costly or too likely to cause disruptions in the lives of recipients. Moreover, earnings sharing would be difficult to implement and would not assist beneficiaries in the near term. Others are opposed to earnings sharing because they view the current system as a superior method of providing benefits to workers and their families.

The fundamental problem in any change in the benefit structure--whether based on earnings sharing or not--is that increasing benefits for some would mean either reducing benefits for others below what they otherwise would receive or making up the difference by higher taxes. The key issues for the Congress, then, are whether it wants to make changes in the Social Security benefit structure that would raise some people's benefits, and, if so, how it wishes to pay for them. Earnings sharing need not result in net additional outlays; but if not, some beneficiaries would receive lower benefits than they are scheduled to be paid under current law.

The introduction of earnings sharing would also raise certain problems of transition. How rapidly should it be done, and how should benefits be determined for those whose earnings records would include years both before and after the change? 3/

EARNINGS SHARING OPTIONS

Two major earnings sharing plans were examined in the HHS report--Generic Earnings Sharing and Modified Earnings Sharing. The key features of the Generic plan, once it was fully implemented, would be: 4/

- Earnings of husbands and wives would be evenly divided during years of marriage, and benefits would be based on each person's own record;

- A surviving spouse would be credited with the entire amount of the decedent's covered earnings for each year of marriage (with the restriction that the survivor's record each year could not include more than the maximum taxable earnings base for that year); and

- Auxiliary benefits for spouses and for surviving spouses would be abolished.

The Modified plan is designed to help beneficiaries in certain circumstances and to avoid certain problems that might otherwise result from earnings sharing under the Generic plan. Its key features are as follows:

- Earnings records would be combined and shared only when a couple divorced, when both spouses claimed worker benefits, or when the lesser-earning spouse claimed disability benefits. By sharing earnings then, rather than as earnings were credited, certain beneficiaries would not lose benefits relative to current

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3. The HHS report (Chapter VI) also raised a number of administrative issues concerning earnings sharing. Converting to a new system in which earnings records each year would reflect combined, rather than individual, earnings would certainly require the Social Security Administration to undertake a major change in its recordkeeping systems and would also involve additional operating costs, especially during the transition period.

4. Other specifications for this plan include: earnings sharing would terminate on the date of a final divorce decree; each person's insured status would be based on the earnings credited to his or her record after sharing and/or inheritance; and benefits for children and the family maximum would be based on a worker's earnings records, adjusted by shared or inherited earnings.

law as they would under Generic earnings sharing; for example, if only the higher-earning spouse of a lifelong couple retired, he or she would be able to claim current law benefits until the other spouse retired.

- o Both spouses would be insured for benefits if either spouse was considered insured under current law; this would prevent a spouse who would have been eligible for worker or auxiliary benefits under current law from losing eligibility under earnings sharing.

- o The current law special minimum benefit provision would be modified by lowering the earnings level needed to qualify for a year of coverage; by adding five years of coverage that would be countable; by indexing the value of a year of coverage by a wage index, rather than by a price index; and by including years of child care as years of coverage. 5/ These modifications would especially help beneficiaries with many years of employment and low earnings.

Each plan would be implemented prospectively--that is, earnings before 1990 would not be shared, and benefits would be based on shared earnings records of workers who become eligible only in 1995 or later. Thus, not until the middle of the next century would the majority of beneficiaries have earnings histories that reflected entire careers in which earnings records were shared during years of marriage.

As a result, moving to the new system would require special transition provisions. Otherwise, some people would incur reductions in benefits simply because their earnings records would only reflect earnings sharing for a part of their worklives. If all benefits were based on shared earnings starting only five years after implementation, large losses could occur for many beneficiaries in the early years.

HHS and CBO analyzed several sets of transition provisions that could be used to ameliorate this problem. Each would guarantee beneficiaries some or all of the benefit amount to which they would be entitled under current law, if that amount was higher than what they would receive under the earnings sharing plan. The four alternatives analyzed by CBO can be briefly characterized as follows:

5. Up to 10 years of caring for children under age six could be included in the calculation of benefits under the special minimum provision.

- o Transition I would enable survivors and divorced spouses to continue to receive benefits based on current law, rather than on earnings sharing, if based on events that occurred before the plan went into effect. 6/ A declining current law benefit guarantee would also be provided, although by 2030 it would have little, if any, effect on the benefits of individuals retiring then.

- o Transition II would provide a current law benefit guarantee to survivors of workers who died before 1995. A guarantee for spouses' benefits would be rapidly phased out, so it would not be available to spouses becoming eligible after 2005. Likewise, survivors' benefits would not be available for those becoming eligible after 2015.

- o Transition III contains a declining guarantee intended to provide the least losses to those with low benefits; it would also provide additional amounts to certain divorced beneficiaries.

- o Transition IV would guarantee recipients 100 percent of current law benefits for a specified period or indefinitely. The specific provisions of the "no-loser" option analyzed by CBO would guarantee couples their total combined benefits, and would guarantee others their individual benefits, under current law.

Transitions I and II were presented and analyzed in the HHS report. Transition III was subsequently suggested by the Technical Committee on Earnings Sharing, a private group that has been developing an earnings sharing plan. The HHS report analyzed a no-loser option similar to Transition IV, but with each recipient guaranteed his or her current law benefit; this would mean that many couples whose combined benefits under earnings sharing would be at least as high as under current law would nonetheless be receiving additional amounts from the guarantee.

POTENTIAL EFFECTS OF EARNINGS SHARING

How would the two earnings sharing plans affect recipients of Social Security? CBO has analyzed the Generic plan and the Modified plan in combination with various transition provisions. These illustrate the wide range of specific earnings sharing options that could be designed to change

6. Current law survivor benefits would be guaranteed to survivors of marriages that began prior to 1990 and to survivors of spouses who died before 1995. Current law spousal benefits would also be guaranteed to divorced spouses for marriages that began before 1990.

the Social Security system. Summary Table 1 highlights the effects of three of the options also examined by HHS on the average benefit levels in 2030 (expressed in 1984 dollars) for each of several types of elderly recipients.

- o Generic Earnings Sharing with Transition I (hereafter called Generic I) illustrates the effects of the Generic plan if implemented with relatively generous current law guarantees.
- o Modified Earnings Sharing with the same transition rules (Modified I) may be compared with Generic I to show the differences in effects between these two versions of earnings sharing.
- o Modified Earnings Sharing with Transition II (Modified II) may be compared with Modified I to show the importance of the transition rules.

CBO's estimates are based on the same simulation methodology and assumptions used by HHS. Minor differences between the versions of the simulation model used by CBO and HHS resulted in inconsequential differences in the estimated effects. In addition, HHS focuses on the number of recipients who would gain or lose at least 1 percent of their current law benefits in 2030, whereas the tables in the CBO report only record changes of at least 5 percent. An estimated gain or loss of only 1 percent in 2030 seems too small to be meaningful, given the uncertainty of the estimates. 7/

Effects on Beneficiaries

Each of these options would move the Social Security benefit structure closer to the achievement of three key objectives of the proponents of earnings sharing. First, the combined retirement benefits of couples would be less affected by the proportion of total covered wages earned by each spouse. Consequently, the average benefit of couples in which the wives had

7. The main differences in results involve dissimilarities in the number of beneficiaries in each group, rather than any substantial differences in estimated effects of earnings sharing. For example, HHS estimates that there would be 13.4 million elderly married couples receiving benefits, rather than 12.9 million, and that Generic I would reduce their average benefit by 0.3 percent, rather than 0.5 percent. Moreover, the tables in the CBO report show fewer winners and losers, but with larger average gains and losses. This is a direct consequence of using a 5 percent, rather than a 1 percent, change to identify winners and losers.

SUMMARY TABLE 1. AVERAGE ANNUAL SOCIAL SECURITY BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER ILLUSTRATIVE EARNINGS SHARING OPTIONS (Numbers of beneficiaries in millions; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Benefits: Current Law	Generic I	Modified I	Modified II
		Married Couples b/			
Total	12.9	16,670	16,590	16,960	16,900
Wives worked at least 30 yrs.	7.8	17,030	17,260	17,560	17,490
Wives worked fewer than 30 yrs.	5.1	16,100	15,540	16,040	15,970
		Widows			
Total	15.3	9,190	9,230	9,270	8,140
Worked at least 30 yrs.	8.2	9,710	9,870	9,910	9,040
Worked fewer than 30 yrs.	7.1	8,600	8,490	8,530	7,090
		Divorced Women with Deceased Ex-Husbands			
Total	6.4	8,240	8,490	8,600	7,700
Worked at least 30 yrs.	4.6	8,420	8,760	8,870	8,190
Worked fewer than 30 yrs.	1.8	7,780	7,750	7,880	6,410

(Continued)

a. See the text for a description of the plans. Beneficiaries depicted in this table are age 62 or older and would comprise approximately three-quarters of all beneficiaries in the simulated population.

b. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

SUMMARY TABLE 1. (Continued)

Group	Number of Beneficiaries	Benefits: Current Law	Generic I	Modified I	Modified II
Other Divorced Women					
Total	2.9	6,190	6,920	7,230	7,210
Worked at least 30 yrs.	2.2	6,630	7,340	7,660	7,650
Worked fewer than 30 yrs.	0.7	4,810	5,600	5,880	5,810
Widowers					
Total	3.8	9,680	10,140	10,160	10,130
Divorced Men					
Total	4.4	9,550	8,960	9,000	8,980
Percent Change in Total Benefits in 2030 Paid to Elderly and Nonelderly Recipients Relative to Current Law					
Elderly c/	--	--	1.0	2.6	-1.5
Nonelderly d/	--	--	8.3	25.4	24.9
Total	--	--	1.6	4.5	0.8

SOURCE: Congressional Budget Office simulations.

c. These estimates include elderly groups not shown in the top panel of the table--about 5.4 million couples in which only one spouse would be receiving benefits, and 6.7 million never-married individuals.

d. The estimated increases in benefits for the nonelderly largely reflect the effects of expanding coverage for disability benefits.

substantial employment histories would increase relative to that of other couples, better reflecting their relative Social Security payroll tax contributions. This would result from replacing spousal benefits with benefits based on shared earnings records.

Second, the benefits paid to survivors would also be less affected by the proportion of total wages earned by each spouse. Thus, the average benefit of widows with substantial work histories would increase relative to that of other widows. This would result from their benefits under earnings sharing being determined by a combination of their own and their deceased husbands' shared earnings records. Under current law, they receive benefits based on either their deceased husbands' earnings or their own.

Third, divorced women (especially those whose ex-husbands were alive) would receive significantly higher benefits than under current law. A divorced woman now receives a benefit that is based on either her own work record or that of her ex-husband, assuming she satisfies the eligibility criteria; if her ex-husband is still alive, her benefit is based on half of his basic benefit. Under earnings sharing, her benefit would be based on a combination of her own earnings in years she was not married and shared earnings in other years, generally resulting in larger payments.

The results for these options also highlight two groups that might be adversely affected by earnings sharing. First, elderly couples in which the wives did not have substantial work histories--and their survivors--likely would be worse off, on average, under earnings sharing unless special protections were added. This, too, would result from replacing spousal benefits with benefits based on shared earnings records. It is the other side of the coin of success in achieving the first objective.

Second, widows (including divorced women with deceased ex-husbands) might not do much better, as a group, under earnings sharing than they would under current law; under one option (Modified II) they would do far worse. One reason many widows (and divorced women with deceased ex-husbands) would do worse under these earnings sharing plans is that these plans would treat all benefits for them as workers' benefits and eliminate actuarial reduction rules favorable to widows under current law. The actuarial reduction for a widow now is based on her age at the time she first receives survivor benefits, even if she has already been receiving benefits as a worker or spouse. Moreover, the present law limits the reduction in her survivor benefits stemming from the early retirement of her deceased husband to 17.5 percent. 8/ Under the earnings sharing plans analyzed by HHS and CBO, her reduction, if any, would be based on her age at the time she first receives any benefits and, therefore, would often be larger. In addition, under the Generic plan, widows age 60 or 61 would no longer be eligible for survivors' benefits, whereas they are under current law.

The main difference between the Generic and the Modified plans for elderly beneficiaries would result from the liberalization of the special minimum benefit provisions in the latter plan. Under current law, the special minimum provides some long-term, low-wage workers with higher benefits than they would receive under the regular benefit formula. The expansion of the special minimum provided in the Modified plan would help beneficiaries who would otherwise have very low benefits. Married couples would receive the majority of these gains. Both earnings sharing plans would increase the progressivity of the Social Security benefit structure, with the special minimum provisions making the Modified plan the more redistributive of the two plans.

Each of the three options depicted in Summary Table 1 would result in many people receiving benefits significantly different from the amounts they would receive under current law. For example, under Generic I, in 2030 almost 7 million elderly widows and divorced women would gain at least 5 percent, with an average increase of 20 percent of their benefit under current law; over 2 million elderly widows and divorced women would incur a reduction in benefits of at least 5 percent, with an average loss of about 25 percent. 9/

Costs

The earnings sharing plans examined here would likely increase the total cost of the Social Security system. 10/ CBO's estimates for 2030 illustrate the relative magnitudes. Generic I is estimated to add 1.0 percent to the benefits that would be paid to elderly recipients in 2030 and Modified I to

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8. The special treatment of survivors under present law is likely to become more important as the age of full retirement is raised. Beginning in 2022, for example, a worker who started collecting benefits at age 62 (five years before the age of full retirement) would incur a 30 percent reduction.

9. The elimination of the favorable actuarial reduction rules for widows would be a major cause of the large losses.

10. The cost estimates in this report are estimated changes in benefit payments only; they do not include administrative costs.

add 2.6 percent; in contrast, Modified II would reduce by 1.5 percent Social Security benefits going to the elderly population. All of these options are estimated to raise the total program costs, however, because benefits would increase for the nonelderly population as well. 11/

The Social Security Actuary's estimates indicate that the three options discussed here would add between 2.7 and 5.6 percent to total Social Security costs over the period from 1984 through 2058, with the costs growing over time. For example, the Generic I plan would add 0.7 percent between 1984 and 2008, and 3.9 percent between 2035 and 2058. Estimates of the costs of earnings sharing proposals are, however, subject to considerable uncertainty--especially for years far into the future.

The results illustrate the fundamental tradeoff that the Congress must address in its consideration of changes in the Social Security benefit structure: higher benefits for some recipients must be paid for through lower benefits for others or through higher taxes, or through a combination of the two. The options examined here would generally pay for some of the higher benefits going to married couples in which wives had relatively long work histories by providing lower benefits to couples in which the wives had fewer years of work experience; widows who worked many years would receive more, while other widows would get less; and divorced women would gain, while divorced men would lose. But additional revenues would also be needed.

INCREMENTAL OPTIONS

Additional options examined in the HHS report would attempt to achieve one or more of the objectives for which earnings sharing proposals have been made, but more rapidly and without as large a change in the existing benefit structure. These "incremental" options could be considered either as alternatives to earnings sharing or as interim changes while an earnings sharing plan is being implemented.

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11. In particular, many homemakers could become eligible for disability benefits depending on the specific provisions of the plan. The issue of whether to provide disability insurance to people without substantial work histories is not addressed in this study. One option analyzed by HHS, Generic Earnings Sharing with Transition II (Generic II), would lower total costs by a small amount.

The CBO analysis illustrates this approach by combining options that would increase survivors' benefits--for example, by permitting survivors to inherit the earnings credits of their deceased spouses for the years during which they were married--with other options that would increase the auxiliary benefits of divorced spouses. The four specific combinations analyzed by CBO would increase the total benefits paid to Social Security recipients in 2030 by about 4 percent, with most of the increased benefits going to elderly widows and divorced women. The incremental options would provide the additional benefits much faster than earnings sharing, and, as a consequence, their costs in the early years would be much higher.

CHAPTER I

INTRODUCTION

Passage of the Social Security Act fifty years ago laid the basis for the present Old Age, Survivors, and Disability Insurance (OASDI) program, as well as for a number of other programs. The original Social Security Act provided annuities only to retired workers and did not cover dependents and survivors. Amendments to include these groups began to be enacted in 1939, before any benefits had been paid. 1/

OASDI currently provides benefits to almost 37 million people, many of whom are receiving benefits as spouses of retired or disabled workers or as widows or widowers. Beneficiaries in May 1985, for example, included 25 million retired and disabled workers (some of whom were also receiving other benefits); over 3 million recipients receiving benefits as spouses of retired or disabled workers (including ex-spouses of retired workers); and almost 5 million widows and widowers who were receiving benefits based on their deceased spouses' earnings. (Most of the other 4 million recipients were dependent children.)

One of several recurring issues regarding the Social Security system concerns the fairness and adequacy of its provisions with respect to two-earner couples, ex-spouses, and survivors. Most recently, when the Congress enacted major changes in 1983 designed to assure the financial soundness of the Social Security retirement and disability system well into the 21st century, a number of proposals were considered that would fundamentally change the methods by which earnings covered by the Social Security Act are credited. In particular, proposals were made that involved crediting each spouse with one-half of the combined covered earnings of husbands and wives for the purpose of determining Social Security benefits--"earnings sharing." 2/

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1. Legislation to provide benefits for dependents and survivors of retired workers was enacted in 1939; benefits for disabled workers in 1956; benefits for dependents of disabled workers in 1958; and benefits for certain divorced spouses in 1965.

2. Congressional interest in earnings sharing precedes the 1983 Amendments. For example, the Social Security Amendments of 1977 directed the Secretary of Health, Education, and Welfare to examine proposals to eliminate dependency as a factor in the determination of a spouse's Social Security benefits. Earnings sharing was one of the options analyzed in the resulting report to Congress by the U.S. Department of Health, Education, and Welfare, *Social Security and the Changing Roles of Men and Women* (February 1979).

The interest in earnings sharing led the Congress, in the Social Security Amendments of 1983, to direct the Secretary of Health and Human Services (HHS) to prepare a report on earnings sharing. This section of the amendments also directed the Congressional Budget Office (CBO) to submit a study to the Senate Committee on Finance and to the House Committee on Ways and Means on "the methodologies, recommendations, and analyses used in the Secretary's report." 3/ The present paper responds to this requirement.

THE HHS REPORT

In 1985, HHS prepared a 632-page report that provides an extensive discussion of earnings sharing. 4/ The bulk of the HHS report analyzes the effects on costs and on major beneficiary groups of two specific earnings sharing plans. It specifies two sets of provisions covering the transition period when the system would be moving from its present structure to one based on earnings sharing. These would cushion the passage by providing at least partial guarantees of current law benefits to some beneficiaries who would otherwise incur losses under earnings sharing. The report also estimates the effects of providing recipients with a "no-loser" guarantee--that is, guaranteeing them the higher of their benefits under earnings sharing or under current law.

The principal method used by HHS to estimate the potential effects on beneficiaries of changing the Social Security system involves simulating the characteristics of the beneficiary population in a future year and then applying the benefit rules under each option to that population. Most of the HHS analysis is based on a simulated population for the year 2030--40 years after earnings would have begun to be shared under the major options examined. Long-range costs are estimated by the Social Security Administration's Office of the Actuary for the 75-year period ending in the year 2058--that is, the period 1984-2058.

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3. The 1983 Social Security Amendments address some related issues as well. For example, they permit eligible divorced spouses to receive benefits based on their former spouses' earnings whether or not the former spouses have applied for benefits. Other provisions improve benefits for certain widows and eliminate virtually all remaining gender-based distinctions in the Social Security legislation. For a summary of the 1983 Amendments, see John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin*, vol. 48 (July 1983), pp. 3-48.

4. U.S. Department of Health and Human Services, *Report on Earnings Sharing Implementation Study* (January 1985). All subsequent references to this study will cite it as the HHS report.

The HHS report used the same methodology to analyze 24 options other than earnings sharing that could be used to address one or more of the problems for which earnings sharing has been proposed. These "incremental" options would increase benefits for widows, working women, divorced women, or homemakers without requiring as large a change in the Social Security benefit structure as would the earnings sharing options. They are presented by HHS for consideration either as alternatives to earnings sharing or as interim steps.

Other major parts of the HHS report include a detailed discussion of the potential effects of earnings sharing on the administration of the Social Security system and a report by a contractor, the Research Triangle Institute, on the concerns of various interest groups regarding the treatment of women under the Social Security system. These aspects of HHS's study are not addressed in the CBO report.

ASSESSMENT OF THE HHS STUDY AND OVERVIEW OF THE CBO REPORT

The HHS study well illustrates the extent to which the effects of earnings sharing on specific beneficiary groups and on total costs would depend on the exact terms of the plan. CBO has no criticism of the basic methodology used by HHS to estimate the effects of the options that it examined or of the way its methodology was applied. The microsimulation approach HHS used is the most appropriate method of estimating the potential effects on future recipients of a major change in the Social Security benefit structure. Nonetheless, specific estimates based on simulation models are subject to a wide range of errors. For example, the assumptions concerning future economic and demographic trends could turn out to be wrong, or the past behavioral relationships on which the models are based could shift in future years. Likewise, any Social Security cost projections are subject to error, particularly for periods far into the future.

The simulations provide an enormous quantity of information about the potential effects of a policy option on future beneficiaries, which can be tabulated and summarized in many ways. The HHS report emphasizes the percentages of people in various groups whose benefits under an option would be at least 1 percent higher or lower than under current law in the year 2030. In view of the uncertainty of the estimates, the number of years into the future for which the benefits are being projected, and the expectation that real benefits will be much larger in the future than they are today, differences as small as 1 percent may be too small to be meaningful.

This report is intended to complement the analyses of HHS and to provide additional perspectives on the findings. CBO examined several options and issues not addressed in the HHS report. For example, the new study conducted by CBO and reported here includes: an additional transition option for implementing earnings sharing; an alternative version of the "no-loser" guarantee; an analysis of the sensitivity of some of the estimated effects on costs and on beneficiaries to changes in women's working patterns and to future divorce patterns; and estimates of the effects of combining pairs of incremental options.

The CBO study uses the same basic methodology as HHS to examine the structure of benefits under each option, highlighting different aspects of the estimates. For example, each earnings sharing option's effect on the average benefits paid to elderly couples (and their survivors) in which the wives worked at least 30 years is compared with the option's effect on elderly couples in which the wives had less work experience. In addition, the analysis focuses on those whose benefits would be at least 5 percent higher or lower than under current law in order to pinpoint the circumstances in which a substantial change in a person's benefits might result.

Chapter II of this report briefly explains why earnings sharing has been proposed. The relevant provisions of the current Social Security benefit structure and the problems that result from these provisions are identified. Chapter III describes how earnings sharing proposals address these problems. It also sets forth criteria that can be used to judge the extent to which specific options would achieve the objectives of earnings sharing. Readers already familiar with the Social Security system and with earnings sharing may wish to go directly to Chapter IV.

Chapter IV presents CBO's analysis of several specific earnings sharing options. The potential long-term characteristics of the two plans included in the HHS report are explored and then the effects of five specific options based on these plans are estimated. Chapter V presents CBO's analysis of four illustrative combinations of several of the incremental options that were included in the HHS report.

The potential costs of the earnings sharing options and of the incremental options are examined in Appendix A. Alternative methods of measuring these costs and the uncertainty of the cost projections are discussed. Other appendixes discuss the simulation methodology used by HHS and by CBO and its limitations (Appendix B); present additional tables on the distributional effects of the earnings sharing options analyzed in Chapter IV (Appendix C); and briefly describe the incremental options included in the HHS report (Appendix D).

CHAPTER II

WHY EARNINGS SHARING HAS BEEN PROPOSED

Earnings sharing is a response to several issues that have been raised concerning the current benefit structure of Social Security. This chapter summarizes key provisions of the Social Security benefit structure and the issues that give rise to earnings sharing proposals. Provisions that affect only a small percentage of beneficiaries are not discussed unless they are directly relevant to the assessment of these proposals.

RELEVANT PROVISIONS IN THE SOCIAL SECURITY ACT

The Social Security Act provides workers who retire or become disabled with lifetime benefits that are related to their past earnings levels. In general, workers who reach age 62 after 1990 must have worked in employment covered by Social Security at least 10 years; a shorter work history is sometimes sufficient to be eligible for disability benefits. 1/ Spouses' benefits, widows' and widowers' benefits, and benefits to certain children of retired, deceased, and disabled workers are also based on insured workers' past earnings.

These benefits are financed through payroll taxes levied on workers and their employers. In 1985, workers and their employers each contributed 5.7 percent of covered earnings up to $39,600, for a maximum tax of

1. A worker must be fully insured to be eligible for retirement benefits, which requires having a specified number of quarters of coverage. For those attaining age 62 after 1990, 40 quarters will be required. For disability benefits, fewer quarters may be needed to be fully insured, but the worker must also have worked at least 20 out of the last 40 quarters preceding the onset of disability (except for workers under age 32). Beginning in 1978, each $250 of annual earnings resulted in one quarter of coverage up to a maximum of four quarters annually. This earnings requirement is automatically increased each year to reflect the growth in overall wage levels; in 1985, the amount needed for one quarter of coverage is $410.

\$2,257 each. 2/ The tax rate is scheduled to increase in steps to 6.2 percent in 1990. The taxable earnings maximum is automatically adjusted each year to reflect changes in average earnings. 3/

Workers' Benefits

Benefits of retired and disabled workers are based on their earnings histories in employment covered by Social Security, expressed as an average over their working lifetimes known as the Average Indexed Monthly Earnings (AIME). From this, a formula is used to calculate a worker's Primary Insurance Amount (PIA), which is then adjusted for a number of factors, such as reductions for early retirement, credits for later retirement, and increases for inflation. 4/

An insured worker becomes eligible for early retirement benefits at age 62. Currently, eligibility for full retirement benefits is at age 65. The Social Security Amendments of 1983 increased this age of retirement with full benefits to 67, with the change phased in through two steps in the first quarter of the next century.

A worker's AIME depicts the average wage earned in covered employment, with some adjustments. Each year's earnings for which Social Security taxes were credited are indexed to the average wage level in the year of the worker's sixtieth birthday. (Earnings when age 60 or older are entered without being indexed.)

The number of years upon which the AIME is based equals five less than either the number of years after 1950 or the year in which the worker became age 21, if later (and before the worker reaches age 62). Thus,

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2. An additional 1.35 percent tax is levied on employers and on employees for the Medicare part of Social Security; the tax rate is scheduled to increase to 1.45 percent in 1986.

3. The adjustment is based on the change in average wages and is made for the year following a year in which an automatic benefit increase becomes effective (as discussed below).

4. Throughout this report, references to a worker's earnings denote earnings covered by Social Security for the purpose of determining worker benefits. For additional details on the calculation of benefits, see Congressional Budget Office, *Financing Social Security: Issues and Options for the Long Run* (November 1982), Chapter III, on which the following description is largely based.

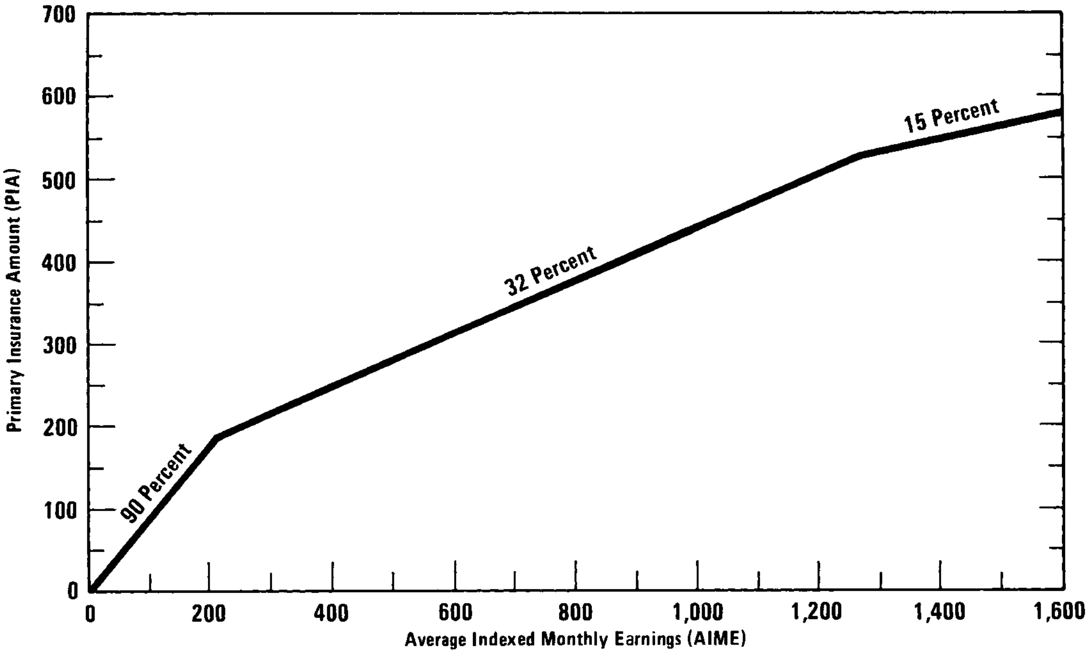
workers who have earnings in more than the required number of years are able to drop out their five lowest indexed earnings years--including years in which they had no covered earnings. If the worker has earnings in fewer years than the number required, zeroes are entered into the AIME calculations to make up the required number. Total indexed earnings are then divided by the total number of months in the computation years to arrive at the AIME. Earnings received subsequent to the initial calculation can be substituted for those in any previous year if that would increase benefits.

To convert this earnings history to a worker's PIA, a formula is applied that is progressive in the sense that it is designed to provide benefits that are a higher proportion of preretirement earnings for those with low average earnings than for those with higher earnings. This largely reflects a perception that relatively high replacement rates--that is, benefits as a proportion of preretirement earnings--are necessary for those with relatively low earnings, in order to provide them with adequate retirement incomes.

Under the formula, 90 percent of the first part of a worker's AIME is replaced by Social Security benefits, but for subsequent portions of the AIME the proportion falls, first to 32 percent and finally to 15 percent. (See Figure 1 for an illustration of the formula.) For workers who reached age 65 in 1984--and thus initially became eligible for retirement benefits in 1981 (that is, turned age 62 in that year, whether or not actually retiring then)--the formula is as follows: a worker's PIA equals 90 percent of the first $211 of the AIME, plus 32 percent of the AIME between $211 and $1,274, plus 15 percent of the AIME over $1,274. The points at which the percentage of the AIME replaced by the PIA changes are known as "bend points." They are indexed to average annual earnings for the labor force as a whole, so that as wages rise over time, the average replacement rates (the ratio of PIA to earnings) are maintained. This also assures that two individuals with similar relative earnings histories will have PIAs that are approximately the same proportion of their AIME, even if they become age 62 in different years. For workers who become eligible in 1985, the bend points are $280 and $1,691.

In general, workers receive 100 percent of their own PIAs in benefits if they first receive benefits at the age of full retirement. The benefit is reduced if they retire earlier; for example, a worker who retires at age 62, which is currently three years before the age of full retirement, receives a 20 percent reduction. Workers still will be able to retire at age 62 after the age of full retirement is increased, but the benefit reduction will be larger. For example, a worker who retires at age 62 in 2022--when the full retirement age will be 67--will receive a 30 percent reduction. Likewise, a

Figure 1.
Primary Insurance Amounts in Relation to Average Indexed Monthly Earnings Under Current Law, for Workers Who Turned Age 62 in 1981



SOURCE: Congressional Budget Office.

NOTE: For workers in this cohort who retired at age 65 (in 1984), the PIA would be based on the formula illustrated in this figure, with the amounts increased by the cost-of-living adjustments effective in 1981, 1982, and 1983.

credit is given for later retirement. For example, a worker who delays receipt of benefits until age 70 in 2030--three years beyond the full retirement age--will receive a 24 percent increase. 5/ Beginning with the year of initial eligibility (age 62 for retired workers), the PIA is increased each year for the increase in the Consumer Price Index (CPI), measured by the percentage increase from the third quarter of one year to the third quarter of the next year. 6/

5. The current delayed retirement credit is 3 percent for each year past the full retirement age. This increment will be increased in steps, starting in 1990, until it reaches 8 percent in 2008.

6. If the CPI increases by less than 3 percent, the cost-of-living adjustment is delayed until the following year, at which time the PIA is adjusted for the increase in the CPI during the two-year period.

Finally, benefits may be withheld if recipients continue to work after starting to receive benefits. Retirement benefits received by those under age 70 are reduced by $1 for every $2 of earnings over the exempt amount applicable for that year. The annual exempt amount of earnings is indexed for changes in average wages. In 1985, this "earnings test" applied to earnings over $7,320 for recipients age 65 through 69 and $5,400 for those under age 65. Beginning in 1990, the earnings test benefit withholding rate will decrease to $1 for every $3 of earnings above the exempt amount.

To illustrate the present benefit structure, consider a worker who retired at age 65 in 1984 with an AIME of $1,000, had no dependents, and had no subsequent earnings. The PIA would be based on the bend points applicable in 1981, the year in which the worker reached age 62. Thus, the PIA, before cost-of-living adjustments, would be $442 per month. 7/ This would be increased by the cost-of-living adjustments effective in 1981, 1982, and 1983, which provided a cumulative increase of 23.6 percent, raising the monthly benefit in 1984 to $546 ($6,552 annually).

One relevant exception to this procedure for determining worker benefits is the special minimum benefit for long-term, low-wage workers. Under this alternative calculation, a worker's PIA is determined by multiplying the number of years in excess of 10 (but not more than 20) in which earnings were at least a specified percentage of the maximum taxable wage by a flat dollar amount ($18.70 in 1985). 8/

Auxiliary Benefits

Spouses and survivors of workers may also be eligible for benefits based on the workers' PIA. Consider, for example, a retired worker with a spouse who never worked in covered employment. Assume that the spouse is the same age. For convenience, the worker will be assumed to be the husband--although the benefit structure does not make a distinction based on gender The spouse of a retired worker is entitled to an auxiliary benefit equal to 50 percent of the worker's PIA. In the illustration in which the worker's

7. The PIA in 1981 dollars would equal 0.90 times $211 plus 0.32 times $789.

8. The original requirement, in 1972, was that the worker must have earned at least 25 percent of the maximum taxable earnings in order to be credited with a year of coverage. For this purpose, ad hoc increases in the tax base are not counted. That is, the additional increases in 1979 through 1981 are not included. Thus, the effective requirement in 1985 is that the worker earn about 19 percent of the maximum.

PIA was $546, the wife's benefit would be $273 per month, raising the total monthly Social Security benefits that would be paid to this couple to $819 ($9,828 per year).

If, however, the spouse starts receiving benefits before the age of full retirement, spousal benefits are reduced. The maximum reduction under current rules is for spouses who begin receiving benefits at age 62; their benefits are reduced by 25 percent. Persons receiving spousal benefits who have earnings above the annual exempt amounts for their age have their benefits withheld as well. In addition, benefits for spouses may be withheld if the worker on whose record their benefits are based has earned over the exempt amount.

Three other major aspects of the Social Security benefit structure must be understood as a prelude to a discussion of earnings sharing: auxiliary benefits for divorced spouses, widows' benefits, and benefits for persons who are eligible based on their own earnings records as well as on their spouses' records. 9/

Divorced Spouses. Under current law, divorced spouses are entitled to spousal benefits as if still married, if the marriage lasted at least 10 years and they are not married at the time they become eligible for benefits, and if they meet the other eligibility requirements, such as age. Benefits for a divorced spouse are not contingent on the actual retirement of the former spouse. A divorced spouse who was not married for 10 years is not eligible for these auxiliary benefits.

Surviving Spouses. Widows and widowers--including surviving divorced spouses who meet the criteria for spousal benefits--generally are eligible for benefits based on 100 percent of the deceased worker's PIA. If the deceased worker retired early and, therefore, was receiving a reduced benefit, the widow's benefit would be limited to the amount the deceased worker would receive if still alive, except that her maximum reduction because of the deceased husband's early retirement would be 17.5 percent. In effect, a widow inherits her husband's earnings record to replace her own record--except that she cannot also receive the 50 percent spousal benefit. To be eligible to receive these benefits, the survivor must be at least age 60

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9. Total benefits payable on the basis of one worker's earnings are subject to a maximum for any one family. In general, if more than two members of a family are eligible for benefits based on one person's earnings record, total family benefits will not increase with additional family members. Benefits paid to divorced spouses (and divorced survivors) are not included in the family maximum.

or have a dependent child under age 16. 10/ In the illustration in which the husband's PIA was $546, the wife (at the age of full retirement) would be entitled to $546 per month.

The amount of a widow's benefit is also reduced if she begins to receive the benefit before the age of full retirement. 11/ Widows can receive reduced benefits as early as age 60 (age 50 if they are disabled), and the maximum reduction for age is 28.5 percent. If the deceased worker's benefit had been reduced because of early retirement, then the widow's benefit would equal either the amount the husband would be getting if still alive (subject to the 17.5 percent limit noted above) or the husband's PIA adjusted for the widow's age at the time she first receives survivor benefits--whichever amount is lower.

Although the maximum reduction for early retirement will increase by 10 percentage points (from 20 percent to 30 percent for workers and from 25 to 35 percent for spouses), the maximum reduction for widows' benefits will not be increased when the age of full retirement is raised. This difference in the calculation of actuarial reductions will grow in importance because the majority of women likely will retire well before age 67 but fewer women will become widows before age 67. Implications of the actuarial reductions under current law for how widows would fare under earnings sharing are discussed in Chapter IV.

Entitlement as a Worker and as a Dependent. Many people eligible for auxiliary benefits as spouses, ex-spouses, or widows of workers are also eligible for benefits as workers based on their own earnings records. The general rule in these cases is that the total amount received equals the higher of the two benefits to which the person is entitled. If, for example, a woman is eligible for the spousal benefit as the wife of a retired worker and is also eligible for a smaller retired worker benefit based on her own earnings, then she receives an amount equal to the former benefit; this is recorded in the Social Security records as if she received her retired worker benefit plus the portion of the spousal benefit that exceeded her retired worker benefit. Such "dual entitlement," as defined in Social Security records, occurs only when the auxiliary benefit is the larger of the two benefits.

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10. In the latter case, the maximum benefit is 75 percent, rather than 100 percent, of the decedent's PIA.

11. Disabled widows and widowers between the ages of 50 and 60 can receive 71.5 percent of the decedents' PIAs. Benefits to survivors between age 60 and 65 are reduced by slightly under one-half percent for each month (5.7 percent per year) under age 65 at the time of entitlement.

In the illustration used above, the wife is eligible for a spousal benefit of $273. If she had also been eligible for a worker's benefit in her own right of, for example, $200 then her total benefit would still be $273--$200 as a worker plus $73 as a spouse. If, instead, she had also been eligible for a worker's benefit of $300, then she would receive $300 as a worker and would not be eligible for a spousal benefit.

ISSUES REGARDING TREATMENT OF TWO-EARNER COUPLES, DIVORCED WOMEN, AND WIDOWS

The Social Security benefit structure outlined above has been criticized on grounds that can be broadly categorized as unfairness in the distribution of benefits and benefit inadequacy for certain groups. Criticisms that have given rise to earnings sharing proposals mainly involve questions having to do with the payments to married beneficiaries in which both spouses have substantial covered earnings, and with the adequacy of benefits received by divorced women and widows. These problems are described in this section.

This study (as well as the HHS report) does not address other fundamental issues concerning the Social Security system. In particular, all of the options analyzed would keep intact key features and premises of the current benefit structure: that benefits should be related, at least to some extent, to covered earnings; that the benefit structure should be progressive, in the sense that the percentage of wages replaced is higher for beneficiaries with low covered earnings histories than for beneficiaries with high past earnings; and that receipt of benefits should not be means-tested. Within this framework, considerable scope remains for varying the provisions that determine who receives what.

Treatment of Two-Earner Couples

Two closely related problems arise for married beneficiaries in which both spouses have substantial covered earnings. First, married women with earnings, who usually have both lower wages and shorter periods of labor force participation than their husbands, often receive little, if any, additional retirement benefits from their (and their employers') Social Security taxes. This occurs for such women because benefits to which they become entitled as workers offset, rather than augment, their benefits as spouses. Thus, among those who have retired, only women whose entitlements as workers exceed the benefits they would have received as spouses receive any additional retirement benefits as a result of the Social Security taxes they paid and, for many of these women, the additional retirement benefit is small. (Most female workers, however, are insured for death and disability benefits during part of their adulthood as a result of their Social Security contributions.)

Second, two-earner couples will generally receive lower total benefits than one-earner couples with the same total covered earnings. This problem arises because a married woman who did not work in covered employment is nonetheless receiving a benefit equal to 50 percent of that of her husband, while a two-earner couple may receive a smaller spousal benefit or none at all. 12/ This problem is exacerbated for surviving spouses, most of whom are women, because they are generally eligible to receive benefits equal to either 100 percent of their deceased spouses' benefits or their own retired worker benefits, whichever is larger. 13/ Thus, the survivor of a two-earner couple may receive much less than the survivor of a one-earner couple with the same total earnings--and, therefore, approximately the same total Social Security payroll taxes.

These problems are illustrated in Table II-1. Consider, again, the earlier illustration--a couple in which only one spouse worked in covered employment who retired at age 65 in 1984 (the first block in the table). If the worker's average indexed monthly earnings (AIME) were $1,000, the monthly retirement benefit in that year will be $546. The spouse (assumed to be the same age) will be entitled to an auxiliary benefit equal to 50 percent of the retirement benefit--$273. Thus, the couple will receive $819 per month.

Under current law, and assuming neither spouse had subsequent earnings, they will continue to receive total benefits of $819 per month, adjusted each year for inflation, for as long as they both live. When either spouse dies, the total benefit will be reduced to $546 (adjusted for inflation)--that is, the worker benefit if the nonworker dies first or the survivor benefit if the worker dies first.

Now consider the case of a two-earner couple with the same combined earnings history, but with one spouse accounting for three-quarters of the total rather than all of it (Case 2 in the table). The higher earner will be

12. The worker benefit for a one-earner couple would provide a lower replacement rate than would the combined worker benefits for two spouses with the same total earnings because of the progressivity of the PIA formula. The auxiliary benefit, however, would more than offset this effect.

13. The amount received depends both on the age at which the deceased worker began receiving retirement benefits (if at all) and the age at which the surviving spouse begins receiving benefits.

TABLE II-1. MONTHLY BENEFITS UNDER CURRENT LAW FOR ONE- AND TWO-EARNER COUPLES AND FOR SURVIVORS AT AGE 65 (in dollars) a/

	Preretirement Average Indexed Monthly Earnings (AIME) b/	Initial Retirement Benefit c/	Survivor's Benefit d/
Case 1: One Earner			
Couple	1,000	819	--
Spouse 1	1,000	546	546
Spouse 2	0	273	546
Case 2: Unequal Earnings			
Couple	1,000	697	--
Spouse 1	750	447	447
Spouse 2	250	250	447
Case 3: Equal Earnings			
Couple	1,000	698	--
Spouse 1	500	349	349
Spouse 2	500	349	349

a. In each case, it is assumed that the husband and wife were both age 65 in 1984 and, if working, retired in that year. Monthly benefit amounts are for 1984. Under current law, these benefits are increased each year for inflation.

b. The AIME is an average based on a worker's covered earnings record, with each year's earnings adjusted for growth in average covered earnings.

c. For spouses, the higher of the person's monthly benefit as a worker or as the spouse of a worker.

d. The higher of the person's monthly benefit as a worker or the widow (or widower) of a worker.

entitled to a benefit of $447 and the lower earner to $250. 14/ The lower earner will not be eligible for the spousal benefit because the worker's benefit exceeds half of the higher earner's PIA--$223. Therefore, their combined monthly benefits equal $697.

This illustrates the problems identified above: First, the lesser-earning spouse receives very little additional retirement benefit from the Social Security taxes paid--$250 versus $223. Second, this couple receives $132 per month less than the one-earner couple that had the same total earnings (and might have paid the same total Social Security taxes). Moreover, the death of either spouse of the two-earner couple would reduce the benefit for the survivor to $447--$99 less per month than the survivor in the first case would receive.

The situation for a surviving spouse is even worse if the two spouses each had the same earnings history, as illustrated by the third couple in the table. This couple receives $698 per month in total retirement benefits--about the same as the other two-earner couple and $131 less than the benefit to which the one-earner couple is entitled. The survivor in this couple, though, would only receive $349--almost $200 per month less than the survivor of the one-earner couple.

The Social Security benefit structure was developed in an era when a much smaller fraction of married women worked for pay than is the case today. As recently as 1950, only 20 percent of married women were in the labor force, compared with over 50 percent now. The provision of spousal benefits reflected the need for higher retirement income for couples than for individuals to maintain a specified standard of living. Although it was always the case that spousal benefits resulted in the Social Security taxes paid by two-earner couples providing less retirement benefits than would be received by comparable one-earner couples who paid the same taxes, this issue was not as salient 30 or 40 years ago as it is today. 15/

Treatment of Divorced Women and Widows

Benefit adequacy is of particular concern for elderly women without husbands. In the case of divorced women, this problem occurs because they

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14. The progressivity of the PIA formula is illustrated by the smaller proportional difference in their benefits than in their earnings.

15. See Richard Burkhauser and Karen Holden, ed., *A Challenge to Social Security* (New York, New York: Academic Press, 1982), especially pp. 1-13, for a concise history of spousal and survivor benefits and the issues raised at the time of their enactment.

are generally eligible for benefits of 50 percent of their ex-husbands' benefits (if they were married at least 10 years and as long as their former husbands are alive). Unlike married women, however, they typically do not have anyone else's benefits to draw on in meeting household expenses. For divorced women, therefore, spousal benefits may provide inadequate levels of support.

For widows, concern with the adequacy of benefits reflects the size of this population and their relatively high poverty rate. Nearly half of all poor elderly beneficiaries in 1984 were widows. 16/ Elderly women are more likely to rely on Social Security benefits for the major part of their incomes than are couples and elderly men. In 1984, 20 percent of unmarried female beneficiaries (most of whom were widows) age 62 and over had total incomes below the poverty line, compared with about 6 percent of elderly couples who were receiving benefits and 16 percent of elderly unmarried male beneficiaries.

In addition to these general benefit adequacy issues, two specific problems have been raised in the context of the earnings sharing debate. First, under current law, widows are not generally entitled to survivor benefits until they reach age 60 (age 50 if disabled) unless they are caring for a dependent child. The period during which widows are not eligible is known as the "widow's gap." Second, a divorced spouse must have been married for at least 10 years to qualify for spousal benefits. Thus, someone who was a fulltime homemaker for nine years and then was divorced would not have accrued any credit toward eligibility for Social Security benefits either as a worker or as a spouse during that period.

The substantial rise in the divorce rate (not yet reflected in the cohorts who have already retired) has increased attention to the treatment of ex-spouses within the Social Security benefit structure and has already resulted in amendments to the original benefit structure. Until 1965, divorced persons were not entitled to spousal or survivor benefits unless they were caring for eligible children. Amendments in that year generally provided benefits to divorced women who had been married at least 20 years and were dependent on their ex-spouses. Subsequently, the marriage duration requirement was reduced to 10 years, the dependency requirement was eliminated, and the benefits extended to divorced husbands. These amendments ameliorate the problems that many divorced women without covered work of their own would otherwise face.

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16. Of the 3.3 million beneficiaries age 62 and over in families with incomes below the poverty line in 1984, 0.8 million were married, 0.4 million were nonmarried men, and 2.0 million were nonmarried women. Widows accounted for 1.6 million of the poor, nonmarried women.

CHAPTER III

EARNINGS SHARING PLANS

AND CRITERIA FOR THEIR ASSESSMENT

As shown in the preceding chapter, the Social Security benefit structure does not always provide similar treatment for families with the same earnings, and may be inadequate for the needs of some recipients, particularly elderly divorced and widowed women. The enactment of earnings sharing has been proposed as a step in relieving both types of problems--particularly that of equal treatment. Proponents hold that it would yield a benefit structure better suited for the social and economic realities of the late twentieth and early twenty-first centuries.

Some critics of the current benefit structure nonetheless oppose earnings sharing. They view the transition from the current system as too costly or too likely to disrupt the lives of recipients, including some of those whom earnings sharing is intended to help. Moreover, earnings sharing would be difficult to implement and would not assist beneficiaries in the near term. 1/ Other opponents of earnings sharing contend that the rationale for auxiliary benefits for spouses and survivors is basically sound, even though social and economic conditions have changed. Auxiliary benefits are one way of helping to provide one-earner couples and survivors with adequate benefits.

This chapter describes how earnings sharing proposals address the problems discussed in Chapter II, and presents criteria for assessing them. The criteria are the same as those used in the HHS report.

EARNINGS SHARING PROPOSALS

"Earnings sharing" proposals all contain one key element: they would divide the earnings credits accumulated by spouses during a marriage evenly between them for the purpose of computing entitlements to Social Security benefits. Earnings sharing proposals vary in their specific provisions. Their general rationale, however, is that marriage is a partnership and

1. The incremental options discussed in the HHS report (Chapter VII) and in Chapter V of this report illustrate other methods of addressing one or more of the criticisms of the current structure.

therefore any income earned by either spouse may be said to belong to both of them. The credits earned by a couple toward future Social Security benefits would be treated in a manner similar to community property assets, subject to equal distribution at the termination of a marriage. For marriages that remain intact, most earnings sharing proposals would require or allow a splitting of the earnings credits at the time of eligibility for benefits. Benefits for each spouse would be based on a combination of the person's own earnings from periods in which he or she was not married and a half share of the combined earnings in periods of marriage.

Most earnings sharing plans would eliminate the present law auxiliary benefits for adults based on marriage to a beneficiary (or received as a survivor of a deceased spouse). The earnings sharing approach would thus address two problems identified in the preceding chapter with respect to the treatment of two-earner couples in intact marriages:

- Workers' benefits would no longer be offset by spousal benefits, and hence increased covered earnings would usually result in increased retirement benefits.

- Likewise, the combined retirement benefits would no longer be affected by the proportion of total covered wages earned by each spouse. All couples having identical combined earnings histories (and of the same age, married to each other throughout their careers, and retiring at the same time) would receive identical benefits regardless of whether these combined histories were the result of one spouse's work or that of both spouses.

The two plans described here are those examined in detail in the HHS report. Others could be formulated by varying the specific provisions. For example, both plans include a provision that enables a surviving spouse (including divorced surviving spouses) to inherit the decedent's earnings record for the years in which they were married. Alternatively, an earnings sharing proposal could be developed that did not contain an inheritance provision. Another alternative would be to permit inheritance by a divorced spouse only if the death occurred within a specified number of years after the marriage ended. Without inheritance or some other method of providing benefits to surviving spouses, however, many more women could incur substantial reductions in Social Security benefits upon the deaths of their husbands or former husbands. 2/

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2. Appendix E of the HHS Report (pp. 359-382) discusses several policy issues that would need to be resolved in developing an earnings sharing plan, including whether special provisions should be made for surviving spouses and divorced surviving spouses.

Earnings sharing options can be characterized by their long-term features and by the transition provisions that are included to phase them in. The former indicate how the Social Security benefit structure would be altered once the new system was fully implemented. The transition provisions are designed to protect some beneficiaries in the short run who would otherwise lose--for example, those who would lose because their earnings records would have been shared for only part of their careers. The transition provisions are given considerable attention by developers of earnings sharing proposals because they could determine the benefit levels of a major fraction of beneficiaries well into the twenty-first century.

Two long-term plans are analyzed in this report, along with four sets of transition provisions. The two plans are referred to in the HHS report as "Generic Earnings Sharing" and "Modified Generic Earnings Sharing" (shortened to "Modified Earnings Sharing" here). The first two sets of transition provisions are referred to in the HHS report as "Transition I" and "Transition II." The third set was developed by the Technical Committee on Earnings Sharing after the completion of the HHS report and was specifically designed for the Modified plan; it will be referred to here as "Transition III." The fourth set would guarantee recipients their benefits under current law if these benefits were higher than those under an earnings sharing plan. This type of provision is referred to in the HHS report as a "No-Loser" plan; the specific guarantee analyzed by CBO will be referred to as "Transition IV." The plans and transitions are described below.

Generic Earnings Sharing Plan

The key features of this plan, once fully implemented, are:

- o The Social Security benefit structure would be converted to one in which the earnings records of husbands and wives would be evenly divided during years of marriage and benefits would be based on each person's record.

- o In addition, a surviving spouse would be credited with the entire amount of the decedent's covered earnings for each year of marriage (with the restriction that the survivor's record each year could not include more than the taxable earnings base for that year).

- o Auxiliary benefits for spouses and for surviving spouses would be abolished.

In addition, earnings sharing would terminate on the date of a final divorce decree; each person's insured status would be based on the earnings credited to his or her record after sharing and/or inheritance; and benefits for children and the family maximum would be based on a worker's earnings record, as adjusted by shared or inherited earnings.

Modified Earnings Sharing Plan

Several modifications of the Generic plan have been proposed to help people in certain circumstances and to avoid certain problems that would otherwise result from earnings sharing. The key provisions and the reasons for their inclusion are:

- Earnings records would be combined and shared only when a couple divorced, when both spouses claimed worker benefits, or when the lesser-earning spouse claimed disability benefits. By sharing earnings then, rather than as earnings were credited, certain beneficiaries would not lose benefits relative to current law as they would under Generic earnings sharing; for example, if only the higher-earning spouse of a lifelong couple retired, he or she would be able to claim current law benefits until the other spouse retired.

- Both spouses would be insured for benefits if either spouse was considered insured under current law; this would prevent a spouse who would have been eligible for worker or auxiliary benefits under current law from losing eligibility under earnings sharing.

- The current law special minimum benefit provision would be modified by lowering the earnings level needed to qualify for a year of coverage; by adding five years of coverage that would be countable; by indexing the value of a year of coverage by a wage index, rather than by a price index; and by including years of child care as years of coverage. 3/ These modifications would especially help beneficiaries with many years of employment and low earnings.

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3. Up to 10 years in which a person had earnings less than the amount needed for a year of coverage and was caring for children under age six could be included in the calculation of his or her PIA under the special minimum provision.

In addition, a child who was entitled to benefits based on both parents' earnings records would receive a benefit based on the combined earnings record of the parents. Under the Generic plan, the child would only receive the higher of the two. 4/

Transition Provisions

The earnings sharing plans examined in detail by HHS and CBO are prospective--that is, earnings before 1990 would not be shared and benefits would be based on shared earnings records of workers who became eligible in 1995 or later. Each of the sets of transition provisions analyzed in Chapter IV would permit some people who would be better off under current law than they would be under an earnings sharing plan to base some or all of their benefits on the current benefit structure. Their main features are outlined in Table III-1.

Transition I. Under Transition I, surviving spouses (including surviving divorced spouses) who would be eligible for auxiliary benefits under current law would receive these benefits (if they were higher than the benefits under the new benefit structure) if based on a marriage that began before 1990 or on a marriage to a worker who died before 1995. Similarly, divorced spouses would be eligible for the auxiliary benefits if they were based on a marriage that began before 1990.

In addition, people becoming eligible for benefits as retired workers or spouses would be guaranteed a percentage of current law benefits (as an alternative to their benefits under earnings sharing). The percentage guaranteed would equal 100 percent for beneficiaries becoming eligible in 1995 and would decline by one percentage point per year to 64 percent in 2030. There would be no guarantee for newly eligible beneficiaries after 2030.

Transition II. Under Transition II, there would be a much faster transition to a benefit structure based solely on earnings sharing:

- o Survivors of workers who died before 1995 would be eligible to receive the higher of the benefits payable under current law or under earnings sharing; and

4. Children of deceased homemakers would be provided benefits under a special rule; their benefits would be based on one-half of the surviving worker's credits accumulated during the marriage.

TABLE III-1. SUMMARY OF TRANSITION PROVISIONS FOR RETIRED WORKERS, SPOUSES, AND SURVIVORS

Benefit Category	Transition I	II	III	IV
Worker	100 percent guarantee for people reaching age 62 in 1995, declining to 64 percent for people reaching age 62 in 2030	No guarantee for worker benefits	Declining individual benefit guarantee with rate of decrease determined by amount of PIA	100 percent guarantee of combined benefits of couple; if not married, then 100 percent guarantee of individual benefit
Spouse	Same as for workers	100 percent guarantee based on marriages that began before 1990 for spouses who reach age 62 in 1995; guarantee declines to 0 for spouses who reach age 62 in 2005	Same as for workers	100 percent guarantee of combined benefits of couple
Divorced Spouse	100 percent guarantee based on marriages that began before 1990; same guarantee as for workers if based on later marriages	Same as for spouses	Same as for workers, except that current law divorced spouse benefit would equal two-thirds, rather than one-half	100 percent guarantee
Survivor	100 percent guarantee for survivors (including divorced survivors) on basis of marriages that began before 1990 or marriages to workers who died before 1995	100 percent guarantee for survivors (including divorced survivors) on basis of marriages to workers who died before 1995; declining guarantee on basis of marriages that began before 1990	Same as for workers	100 percent guarantee

- o People who would be eligible to receive benefits as spouses, divorced spouses, surviving spouses, or divorced surviving spouses from marriages beginning before 1990 would be eligible to receive the higher of the benefit based on shared earnings or a transitional benefit; the latter would be a declining percentage of the benefit under current law, such that spouses' benefits would not be available to people becoming eligible after 2005 and survivors' benefits would cease for those becoming eligible after 2015.

Transition III. The Technical Committee on Earnings Sharing, a private group that has been developing an earnings sharing plan, suggested transition provisions with characteristics different from those of either Transition I or Transition II. The protection provided by Transition III would be a declining individual benefit guarantee designed to provide the smallest losses to low-benefit recipients. The first bracket in the benefit formula plus a portion of the second bracket would be completely guaranteed from 1996 through 2030. 5/ The guarantee for the remainder of the second bracket would gradually decline, based on the date that a person became eligible for benefits--95 percent of current law benefits still would be guaranteed in 2005, 85 percent in 2015, 65 percent in 2025, and 50 percent in 2030. The guarantee for the highest bracket would be rapidly phased out, ending for those becoming eligible in 2010 or later. Thus, workers with extremely low PIAs would be protected fully against a reduction from current law because of the implementation of earnings sharing if they become eligible in 2030 or earlier; workers reaching age 62 by 2030 with average earnings would have about 70 percent of their benefits guaranteed; and workers whose earnings histories were at the maximum would only have about half of their current law benefits guaranteed. 6/

In addition, the guarantee for divorced spouses under Transition III would be based on two-thirds of the former spouse's benefit, rather than the one-half provided by current law. In effect, this transition provision would be equivalent to increasing the auxiliary benefit for divorced spouses whose former husbands or wives were still alive. The purpose of this provision would be to increase the auxiliary benefit until earnings sharing would have become sufficiently mature to provide help to these women.

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5. This guarantee would be applicable to the first bracket of the PIA formula or the poverty threshold, whichever is higher.

6. Sheila Zedlewski, "The Distributional Consequences of an Earnings Sharing Proposal," *Project Report No. 3344* (Washington, D.C.: The Urban Institute, December 1984), p. 19, and conversations in July 1985 with Edith Fierst, Chair of the Technical Committee on Earnings Sharing. As of September 1985, the Technical Committee had not issued a final report on its plan.

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Transition IV. Finally, under Transition IV, beneficiaries would be guaranteed 100 percent of current law benefits for a specified period or indefinitely. The specified provisions modelled by CBO would guarantee married couples their total combined benefits and other beneficiaries their individual benefits under current law. 7/

CRITERIA FOR ASSESSING OPTIONS

Proposals to change the Social Security benefit structure can be assessed in terms of their effects on the fairness of the system, on the adequacy of benefits, and on total costs. The HHS report contains six standards of evaluation for assessing specific earnings sharing plans: 8/

- Equalize benefits for one- and two-earner couples with the same total earnings;
- Equalize benefits for survivors of couples with the same total earnings;
- Increase benefit adequacy for women by taking account of time out of the paid labor force for child care and/or homemaking responsibilities;
- Increase benefit adequacy for divorced women;
- Increase benefit adequacy for widows; and
- Expand eligibility to provide disability benefits for homemakers and to provide survivors' benefits to widows who do not qualify because they are under age 60 and do not have children under age 16 (the "widow's gap").

In addition to these standards for assessing effects on benefits, HHS also examined the effects on total costs of implementing each proposal. Any option that would increase the Social Security benefits payable to

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7. The "no loser" option analyzed by HHS would guarantee each person his or her current law benefit, even if one spouse's loss would be less than the other spouse's gain. The effects of this alternative are briefly discussed in Chapter IV.

8. HHS, p. 18.

some people must either reduce the benefits to others or increase total costs, relative to their amounts under current law.

The first two standards listed by HHS have to do with the fairness of the current benefit structure. One indicator of fairness (or equity) is the extent to which beneficiaries with similar covered earnings receive similar Social Security benefits. Meeting these standards would achieve two objectives of proponents of earnings sharing--to have the combined retirement benefits of a couple and each survivor's benefit no longer affected by the proportion of total covered wages earned by each spouse. Couples in which the wives had substantial work histories (and their survivors) would gain relative to other couples.

The other standards address the adequacy of benefits for various groups. Although HHS expresses these standards in terms of broad demographic groups--for example, homemakers, divorced women, and widows--it is clear from its discussion of the underlying issues and from statements by advocates of earnings sharing proposals that the biggest concerns about adequacy involve women with the lowest benefits under the current structure. The objectives of proponents include higher benefits for these women.

The analysis in the HHS report uses these standards to evaluate earnings sharing plans. The major part of the analysis is based on a simulated beneficiary population in the year 2030, disaggregated by marital status in that year. Estimates are reported of whether each group, on average, would have higher or lower benefits under a specific plan, relative to current policy, and what percentages of each group would gain and lose as a result.

The main purpose of the remainder of this study is to indicate what the structure of benefits might look like under alternative plans, comparing those distributions with the distribution of benefits projected under current law. 9/ Less emphasis is given to the percentages that would gain or lose relative to current law. Judgments about whether one plan is superior to another, in the long run, are assumed to reflect values concerning the relative importance of achieving various objectives. The identification of gainers and losers (especially losers) supplements this information by helping to pinpoint the circumstances in which change in the law might have a major effect on a person's benefits. It also helps to identify circumstances in which transition provisions or supplemental provisions might be warranted.

9. As discussed in Chapter IV, CBO's analysis concentrated on the effects on beneficiaries age 62 or older. It did not address the success of each plan in achieving the objectives concerning disabled homemakers and the widow's gap.

The analysis illustrates the central dilemma that the achievement of any one of the objectives listed above must involve either spending additional money on Social Security benefits or reducing the benefits of others or both (compared with amounts under current law). Moreover, achievement of one objective could move the benefit structure further away from the achievement of another. Adding provisions to attempt to achieve multiple objectives generally would raise the total cost. 10/ The issue, then, is one of tradeoffs between lower benefits for some recipients or higher taxes overall.

10. One option not analyzed in the HHS report or by CBO is to offset the cost of an earnings sharing plan by an across-the-board reduction in the growth in Social Security benefits. In that case, total outlays would not increase and the tradeoffs would all involve gains for some beneficiaries at the expense of losses for most other beneficiaries; the only unaffected beneficiaries would be those whose gain from earnings sharing equalled their loss from the general benefit reduction.

CHAPTER IV

ANALYSIS OF EARNINGS SHARING PLANS

The enactment of earnings sharing would result in a fundamental change in the methods used to compute Social Security benefits. The current principle that benefits derive from a record reflecting a person's earnings would be replaced by one in which the earnings record would reflect half of the combined earnings of the person and spouse during years of marriage. Moreover, auxiliary spousal benefits would be abolished. Instead, each spouse would have his or her own record.

This chapter analyzes the effects of several earnings sharing options. After a brief description of the methodology, it presents estimates of the potential long-term costs and effects on major beneficiary groups of the Generic and Modified plans. These estimates are based on hypothetical options in which earnings are shared retrospectively--that is, they assume a population that has experienced earnings sharing since 1951. This approach is useful for understanding the long-term characteristics of the Generic and Modified plans themselves. As noted in the HHS report, however, earnings sharing proposals typically approach sharing on a prospective basis--with sharing of earnings beginning five years after enactment and benefits based on shared earnings beginning ten years after enactment--and include special provisions for the transition to the new system. The effects in a particular year would depend on the specific transition provisions in use.

The prospective analysis reports CBO's estimates of the potential impacts of prospectively implementing five specific earnings sharing options, each based on either the Generic or Modified plan. In that section, emphasis is placed on the effects on costs and on beneficiaries of the transition provisions. The final section provides a brief summary of the results.

METHODOLOGY AND LIMITATIONS

The estimates of the effects of implementing each option were made by applying the plan's benefit determination rules to a simulated population in the year 2030; benefit levels are expressed in 1984 dollars. The determination of a person's Social Security benefits under current law or under any of the earnings sharing options examined in this study requires detailed information about, among other things, year-by-year covered earnings for both the person and any current or former spouse, dates of birth and of eligibility for worker benefits, and relationships to other people.

Underlying Assumptions

The simulation methodology used by CBO is basically that of HHS. 1/ As in the HHS report, most of the estimates reported below were based on a simulated population in the year 2030 that was assumed to have had work histories and demographic histories consistent with the II-B assumptions made by the Social Security Actuary in 1983 for the purpose of projecting the status of Social Security trust funds. 2/ For example, it was assumed that the labor force participation rate of women will continue to increase, but at a somewhat slower rate than during the past several decades. 3/ It was also assumed that divorce rates of people married for different durations will remain at their current levels.

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1. The simulations are based on modified versions of the dynamic simulation model (DYNASIM) developed by Guy Orcutt and his colleagues at the Urban Institute in the early 1970s. Guy Orcutt, Steven Caldwell, and Richard Wertheimer II, *Policy Exploration Through Microanalytic Simulation* (Washington, D.C.: The Urban Institute, 1976). The version on which CBO's analysis is based is described by Jon Johnson, Richard Wertheimer II, and Sheila Zedlewski, "The Dynamic Simulation of Income Model," Vols. I and II, *Project Report 1434-03* (Washington, D.C.: The Urban Institute, November 1983).

2. *1983 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.* Each year, the Office of the Actuary develops four sets of projections. The assumptions under alternative I are the most optimistic in terms of the financial wellbeing of the Social Security trust funds; alternative III contains the most pessimistic assumptions; and alternatives II-A and II-B are the intermediate ones. This was the latest report available at the time that the simulated populations used by HHS and by CBO were created. Similar assumptions were made by the Office of the Actuary in 1985.

3. Under the Office of the Actuary's II-B projections, the labor force participation rates of women in most age groups would continue to rise until early in the next century and then level off. For example, the participation rate of women between the ages of 40 and 44 would increase from 70 percent in 1985 to about 78 percent in 2010 and remain there for the next 50 years. Because the age composition of the population would be changing throughout this period, with a larger share of the female population over age 65, the participation rate for women as a group is projected to decline after the year 2000, but the age-adjusted rate is not. See Social Security Administration, *Economic Projections for OASDI Cost Estimates, 1983, Actuarial Study No. 90* (February 1984), Table 10G.

The version of the simulation model used by CBO differs slightly from that used in the HHS study. CBO's version was used to simulate a population based on the economic and demographic assumptions used by HHS, with similar results for elderly beneficiaries. 4/ Because CBO and HHS used different versions of the same simulation model (DYNASIM), there are minor differences in the two sets of estimates. These mostly involve differences in the number of beneficiaries in each group, rather than any substantial dissimilarities in estimated effects of earnings sharing. In addition, estimates of the number of beneficiaries who would gain or lose in the simulation year are displayed in this report's tables based on the number whose benefit would change by at least 5 percent--rather than the 1 percent used in most of the HHS tables. This does not reflect any conflict between the two sets of results.

CBO's version of the model was then used to simulate a population based on alternative assumptions about women's future labor force activities and about future divorce rates. This enabled CBO to examine the sensitivity to these assumptions of some of the estimated effects of earnings sharing. The results are included in the discussion of the estimated effects of earning sharing plans with transition provisions later in this chapter and in the discussion in Appendix A of the uncertainty of cost projections. In brief, the alternative assumptions of higher female labor force participation and divorce rates that were made did not result in any major differences in the estimated effects of earnings sharing.

Chances of Error

Estimates of the Social Security benefits that would be paid in a future year under current law or under alternative plans are necessarily subject to a very wide range of errors. It is impossible to predict accurately the values of the many variables on which these estimates depend. Even if the specific set of aggregate assumptions from the Office of the Actuary were to be correct, errors could still result from failure to project accurately the individual relationships. If, for example, the projections of divorce rates were accurate, but the extent to which divorces occurring among couples in which the wives were fulltime homemakers was understated, the value to divorced women of auxiliary benefits could be understated as well. 5/

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4. Further discussion of the simulation methodology used by HHS and CBO and its limitations is provided in Appendix B.

5. Another potential source of error is that the implementation of a change in the Social Security benefit structure could cause some people to change their behavior. For example, a worker whose benefits would be reduced under an earnings sharing option (relative to current law) might delay retirement.

For these reasons, the estimates presented in this report, as well as those in the HHS report, should be interpreted as indicative of what might occur as a result of implementing the options examined, compared with continuing the current benefit structure. The estimates of the benefits that would be paid to recipients with specified characteristics, employment and marital histories, and behavior should be correct, given the assumptions made, but the numbers of people in each group are difficult to predict. The methodology probably results in estimates that are more accurate in terms of the relative effects of one plan versus another than in terms of their absolute effects. The reason for expecting this is that many of the sources of error would affect the accuracy of the estimates of the number of beneficiaries or the benefit levels under all of the plans.

One dimension in which the simulations are likely to be especially inaccurate is in identifying the population eligible for disability insurance. The number will depend on how many people will be physically or mentally impaired and will apply for benefits, as well as the rules used to determine eligibility. Therefore, most of the estimates reported in this study are for beneficiaries who are at least age 62, most of whom would be receiving benefits based on retirement rather than on disability. 6/

Estimates of the additional costs of implementing an option, relative to current law costs, are likely to be more accurate than the estimates of the total costs themselves for the reasons noted above. Therefore, in this chapter most of the discussion of costs is in terms of estimates of percentage differences between the benefits that would be paid in the simulation year under the various plans and the benefits that would be paid in that year under current law. A fuller discussion of the costs of each option--and their uncertainty--is presented in Appendix A. 7/

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6. At the end of 1982, for example, about 29 million beneficiaries were age 62 or older, of whom less than 3 percent (700,000) were receiving benefits as disabled workers, spouses of disabled workers, or disabled survivors. Among the 7 million beneficiaries under age 62, almost half (3.4 million) were disabled workers, spouses and children of disabled workers, or disabled survivors. See *Social Security Bulletin, Annual Statistical Supplement, 1983*, Tables 59 and 67.

7. The cost estimates reported in Appendix A include some based on the model used by the Social Security Administration's Office of the Actuary, as well as those based on the simulation model used here. Differences in estimates generated by the two models are discussed there.

The discussion of effects on beneficiaries reports estimates of average benefits for various groups and of the percentages of beneficiaries in each group whose benefits would be at least 5 percent higher or lower, relative to their projected benefits under current law. For the purpose of estimating the number of gainers and losers from a plan, compared with benefits under current policy, HHS included changes in excess of 1 percent, whereas the main tables in this report only record beneficiaries as gainers or losers if their benefits are estimated to change by at least 5 percent. Consequently, the tables in the present report depict fewer winners and losers, but with their average gains and losses, of course, being much larger. In view of the number of years into the future for which the benefits are being projected, the uncertainty of the estimates, and the expectation that real benefits will be much larger in the future than they are today, a 1 percent gain or loss relative to current law benefits seems too small a range to be meaningful. 8/ Even a 5 percent "loss," relative to current law, would still result in substantial real benefit growth, although lower replacement rates.

POTENTIAL LONG-TERM EFFECTS OF EARNINGS SHARING

The remainder of this chapter discusses the effects of the two earnings sharing plans described in Chapter III. The first--Generic Earnings Sharing--would split the earnings of married couples as credits are earned; would permit surviving spouses, in effect, to add the decedents' earnings record to their own (up to the taxable earnings base) for each year of marriage; and would abolish auxiliary benefits for spouses and surviving spouses. The second--Modified Earnings Sharing--adds several provisions to this plan that would make it more generous in certain cases: sharing would occur when a couple divorced, when both spouses claimed worker benefits, or when the lesser-earning spouse claimed disability benefits, rather than as earnings were credited; both spouses would be insured for benefits if either spouse was considered insured under current law; and the special minimum benefit provision would be liberalized. Both of these plans are designed to be implemented prospectively, with the sharing of records not to begin until 1990. Thus, even in 2030 most beneficiaries would have earnings histories that reflected some years prior to the onset of earnings sharing. Consequently, proposals usually contain transition provisions.

8. Under the Office of the Actuary's II-B assumptions in 1983, the average benefit level in 2030 would be $7,600 (in 1984 dollars), 53 percent higher than projected for 1985. The future growth rates of earnings and other variables on which benefits are based are quite difficult to predict. But even much lower growth rates would produce an average benefit several decades from now whose real value would be substantially higher than recent amounts.

In order to illustrate some of the effects of the Generic and Modified Earnings Sharing plans in the long run, members of the simulated population in 2030 were given earnings records as if sharing had been implemented in 1951--thereby simulating up to 80 years of shared records. Thus, virtually everyone would have records that reflected the rules of a plan throughout their working lives. The purpose of these estimates is to understand some of the long-term characteristics of each plan, not to portray the actual effects in a particular year of implementing such a plan. A plan that was not prospective would be very difficult to implement, because the Social Security Administration would need to obtain the beginning and ending dates of past marriages, as well as future ones. Moreover, many people nearing retirement age when it went into effect would likely incur substantial losses without adequate time to adjust their financial plans.

To depict a group that had experienced a lifetime of earnings sharing under a plan that was implemented prospectively would have required the simulation of a population to at least the year 2070. An important difference is that, under the Actuary's intermediate projections, very old female beneficiaries in the year 2030 would have had fewer years of work experience than their counterparts in 2070. Because the gains to married couples and widows from earnings sharing plans are positively associated with the number of years that the women worked in covered employment, the retrospective estimates might tend to understate their benefits (and the associated costs).

The CBO estimates indicate that, in the long run, implementation of either the Generic plan or the Modified plan would produce changes in the benefit structure consistent with several of the objectives of earnings sharing proponents: increases in the benefits of couples in which the wives had substantial work histories, relative to the benefits of other couples; increases in the benefits of widows who had substantial work histories, relative to other widows; and increases in the benefit levels of divorced women. These gains would come, in part, at the expense of reductions in the average benefits of other groups--especially other married couples and widows and divorced men--and, in part, through an increase in total outlays. The major distinction between the Generic and the Modified plans for elderly recipients is the latter's liberalization of the special minimum rules, which would increase outlays mainly by raising amounts paid to recipients with low current law benefits.

Total Costs 9/

Under the assumptions given above, if the Social Security benefit structure was converted to the Generic Earnings Sharing plan, the total benefits paid to Social Security recipients after 80 years of shared earnings records (from 1951 to 2030) would be 1.7 percent ($11 billion in 1984 dollars) higher than the amount that would be paid in the same year (2030) under current law. The Modified Earnings Sharing plan would expand total benefits--and thus costs--by 4.5 percent, which is about $30 billion (in 1984 dollars) above what would be the amount under current law.

Benefits for people age 62 and over would increase by 1.1 percent ($7 billion) under the Generic plan and by 2.6 percent ($16 billion) under the Modified plan. Larger percentage increases in benefits paid to people under age 62 probably would result from implementation of either earnings sharing plan because more people would be eligible for disability benefits. Total benefits paid to the under-62 age group would increase, relative to current law, by 7.3 percent ($4 billion) under the Generic plan and by 24.7 percent ($14 billion) under the Modified plan. The Generic plan would increase benefits paid to the nonelderly by a smaller amount in part because it would reduce benefits for disabled workers who shared with a lower-earning spouse, would eliminate benefits for nondisabled widows under age 62, would eliminate benefits for surviving spouses based on caring for dependent children, and would reduce benefits for children if the higher-earner parent died. 10/ As previously noted, the estimates for the nonelderly population are more problematic than those for the elderly population because of the difficulty of projecting the number of disabled beneficiaries.

Long-Term Effects on Beneficiaries of Generic Earnings Sharing

The effects on beneficiaries of implementing an earnings sharing plan would depend, to a considerable extent, on their marital status and their employ-

9. The cost estimates in this report are estimated changes in benefit payments only; they do not include administrative costs.

10. The estimate for the Generic plan reflects a $3 billion reduction in benefits for people under age 62 who already would have been receiving benefits under current law and a $7 billion outlay for new beneficiaries in this age group. The estimated cost of the Modified plan includes a $3 billion increase for current law beneficiaries and an $11 billion outlay for new beneficiaries.

ment history. The estimates of the effects of the Generic plan summarized in Table IV-1 illustrate the major patterns. 11/

Married Couples. Even though this plan would be a major departure from the present method of determining benefits, the majority of elderly couples in the simulated population would receive benefits similar to their benefits under current law. 12/ Among these 13 million recipient couples, the annual average benefit (in 1984 dollars) would be $16,620--about $50 (0.3 percent) less than the benefit they would have received under current law (see the first row of Table IV-1). About one-fifth of the couples, or 2.6 million, would have benefits that were at least 5 percent higher than they would have received under current law and nearly one-fourth, 2.9 million, would have benefits that were at least 5 percent lower.

The critical distinction between the couples who would be better or worse off under this earnings sharing plan is, of course, the extent to which both spouses had covered earnings. The second and third rows of numbers in Table IV-1 illustrate this result. As shown under the Generic plan, couples in which the wives worked at least 30 years would gain an average of 1.6 percent of their average benefit under current law. By contrast, other couples would lose 3.4 percent of their current law benefit, on average. About three-quarters of the couples that would gain from this plan--but only one-third of the couples that would lose--are those in which the wives worked at least 30 years. 13/

Widows. The results for widows are similar to those for married couples. The average benefit level under the Generic plan would be almost identical to the level under current policy. Over one-third of the 15 million widows in

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11. The distributions of effects by marital status that are used throughout this study are for the simulated population in the year 2030 and reflect their most recent marital status. Thus, beneficiaries who had been divorced or widowed and then remarried would be included in the "married couple" group, even though their benefits might be based in part on past marriages. For example, over 40 percent of elderly beneficiary couples in the simulated population contain at least one previously married spouse.

12. The couples referenced in the analysis, unless otherwise stated, are married couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

13. Examination of the effects on couples, disaggregated by the number of years that the wives worked in covered employment, indicates that the likelihood of gaining under this earnings sharing plan, relative to current law, uniformly increases with years of wives' employment; the likelihood of losing uniformly decreases.

the simulated population would be better off and about one-third would be worse off, compared with benefits under current law. Again, effects would differ by length of previous employment. About two-thirds of the widows who would gain from this plan would be women who had worked at least 30 years, whereas only about half of the widows who would lose would be in this group. 14/

Under current law an eligible widow receives, in effect, the higher of her own worker benefit or that of her husband (subject to actuarial reductions). Under Generic Earnings Sharing, she would instead add her shared earnings record to his for years they had been married and only be eligible for worker benefits. In general, this would work to the advantage of widows with lengthy work histories.

Whether a particular widow would be better or worse off would depend on the exact pattern of her earnings history, as well as that of her husband. The effect would also depend on how long she had been married to the decedent and on their ages at retirement and on her age when he died. Under the Generic plan (as well as the Modified plan), the decedent's earnings record would only be inherited for the years in which they were married. Thus, unlike current law, widows who had only been married a short time would derive few benefits based on inheriting their husbands' earnings records. The ages of the spouses would be important both because earnings are indexed to the year of first eligibility for benefits and because the 35 years of highest covered earnings of husbands and wives would be less likely to be matched if there were large differences in their ages.

One reason many widows would do worse under earnings sharing is that they would no longer gain the advantage from the current law rules on actuarial reductions for survivors that were described in Chapter II. Because widows would inherit their husbands' earnings record but would continue to receive benefits as workers, widows' actuarial reductions (if any) would be based on the age at which they retired, not their age when they become eligible for survivors' or spousal benefits. Some widows who would lose, then, would be those who retired early and whose husbands died at a relatively old age, the group that benefits most from the current rules governing survivor benefits. This difference in how benefits are actuarially reduced would become increasingly important for widows who retired early after the turn of the century because the size of the maximum actuarial

14. In addition, nondisabled widows between the ages of 60 and 61 would no longer be eligible for survivors' benefits, as they are under current law. These losses are not included in Table IV-1, because it (as with all subsequent tables on beneficiary effects) only includes beneficiaries age 62 or older.

TABLE IV-1. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER RETROSPECTIVE GENERIC EARNINGS SHARING (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
			Married Couples d/				
Total	12,880	16,620	-0.3	2,630	2,050	2,950	1,890
Wives worked at least 30 yrs.	7,830	17,310	1.6	1,920	2,080	960	1,750
Wives worked fewer than 30 yrs.	5,050	15,560	-3.4	710	1,980	1,980	1,960
			Widows				
Total	15,320	9,150	-0.5	5,900	1,920	5,040	2,380
Worked at least 30 yrs.	8,210	9,990	2.9	4,030	2,080	2,510	2,420
Worked fewer than 30 yrs.	7,100	8,180	-4.9	1,880	1,590	2,530	2,340
			Divorced Women with Deceased Ex-Husbands				
Total	6,400	8,560	3.9	3,490	1,800	1,700	2,480
Worked at least 30 yrs.	4,650	8,990	6.8	2,790	1,780	1,020	2,260
Worked fewer than 30 yrs.	1,750	7,420	-4.5	690	1,880	680	2,800

(Continued)

TABLE IV-1. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Other Divorced Women							
Total	2,930	7,220	16.6	2,090	1,470	100	880
Worked at least 30 yrs.	2,230	7,610	14.8	1,550	1,430	60	750
Worked fewer than 30 yrs.	710	5,980	24.2	540	1,580	30	1,140
Widowers							
Total	3,810	10,280	6.2	1,850	1,340	240	1,770
Divorced Men							
Total	4,360	8,800	-7.9	670	1,160	2,570	1,590

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

reduction for workers, but not for survivors, will be increasing. The maximum reduction for workers after the full retirement age is raised to 67 in 2022 will be 30 percent, rather than the current 20 percent. Thus, the spread between the maximum reduction for a survivor on her deceased husband's PIA (fixed at 17.5 percent) and the maximum reduction for a worker's benefit will have widened considerably. 15/

Divorced Women. Divorced women, as a group, would gain considerably from implementation of Generic Earnings Sharing. Recall that under current law divorced women who were married at least 10 years are eligible for benefits equivalent to what they would have received had they remained married--50 percent of their husbands' benefits while the husbands are alive and 100 percent of the benefits after they die (each subject to actuarial reductions). Under the Generic plan, divorced women instead would be credited with half of the combined earnings during the years of their marriage while the ex-husbands were alive and all of the combined earnings during those years (up to the Social Security tax base in each year) after their husbands died. This procedure would, in effect, smooth out the benefit stream for divorced women, generally providing them with considerably more than they would receive under current law while their former husbands were alive and slightly more than they would receive as divorced survivors; the benefits of divorced women would still be affected by whether their ex-husbands were deceased, as under current law, but the average impact would be smaller.

The 2.9 million divorced women whose ex-husbands were alive would receive larger gains than any other major elderly group examined--their average benefit increasing by about 17 percent to $7,220. This group of women usually derive little, if any, Social Security benefits from their ex-

15. To illustrate the potential significance of the current reduction rules in the year 2030, CBO estimated the effect of making the size of widows' actuarial adjustments under current law depend on the age at which they first received any benefits, rather than on the age at which they first received survivor benefits--that is, the effect of breaking the link between survivor benefits and a widow's age when her husband died. Under this option, the average widow would have a $640 lower benefit than under current law and the average divorced woman with a deceased ex-husband would have a $310 lower benefit; 6.3 million widows and 1.4 million divorced women with deceased ex-husbands would have lower benefits than under current law. Comparing the adjusted "current law" benefits with the benefits that would be paid under the retrospective Generic plan, the average widow would gain about $600 from earnings sharing; half (8.0 million) would be better off; and one-fifth (2.8 million) would be worse off. That is, a substantial part of the estimated effects of the retrospective Generic plan reported in the text is associated with the impacts of the different actuarial reduction rules, and with the redefinition of all benefits under the earnings sharing plans examined here as "workers'" benefits.

spouses' earnings records. At most, they are eligible for 50 percent of their former husbands' benefits--less than most of them would receive based on their own earnings records. Thus, the full implementation of the Generic plan would be especially advantageous to this group. Two-thirds of the group would gain and hardly any would lose. The small number of these divorced women who had worked less than 30 years would benefit the most--with their average benefit increasing by 24 percent, from $4,810 to $5,980.

The 6.4 million divorced women with at least one deceased ex-spouse would increase their average benefit by about 4 percent to $8,560. Under the Generic plan, they would inherit their husbands' share of the earnings records for the years in which they were married. Among the women who had substantial earnings of their own, the plan would generally provide a higher benefit than most of them would receive under current law. Thus, among women in this group who had worked at least 30 years, the average benefit under the plan would be about 7 percent higher than under current law; three-fifths of these women would gain; and one-fifth would lose. But many of the women with shorter work histories would be better off under current law. On average, the 1.8 million divorced survivors with less than 30 years of covered earnings would incur a 4.5 percent reduction under this plan.

<u>Divorced Men</u>. The group that would bear the largest losses would be divorced men--a direct result of sharing earnings records during the years that they were married to spouses who earned less. The average benefit of these 4.4 million men under this plan would be $8,800, about 8 percent less than the $9,550 they would receive under current law. The majority of this group would lose. Most of those who would gain (610,000 of the 670,000 gainers) would be divorced men with one or more former wives who had died; they would have inherited the earnings records of these women for the years in which they were married.

<u>Widowers</u>. In the simulation year, there would only be about 3.8 million widowers--reflecting the shorter life expectancies of men relative to women and their greater likelihood of remarriage. Their average Social Security benefit would be $10,280, which is about 6 percent higher than they would receive under current law. Almost half (1.8 million) would gain at least 5 percent because they would be able to inherit their deceased wives' shared earnings records. A small number (240,000) would be worse off by at least 5 percent under this plan. Most of these widowers who would lose would still be sharing part of their earnings records with living former wives who had earned less than they had.

Other Elderly Groups. In addition to the approximately 13 million elderly couples and 33 million other elderly women and men depicted in Table IV-1 (and subsequent tables), there are about 5 million other couples in the simulated population in which only one spouse would receive benefits under current law and almost 7 million never-married beneficiaries.

Most of the one-beneficiary couples would be those in which the other spouses would not yet be eligible for benefits, either because they were not age 62 or had not yet retired. Most of the couples in which the wife would be the only beneficiary would gain (1.9 of these 2.2 million couples) because under the Generic plan the wives' earnings records would be replaced by half of the combined earnings histories; this would generally provide higher AIMEs and, hence, higher benefits for wives and lower AIMEs for their husbands. For the same reason, three-fourths of the one-beneficiary couples in which the husbands would be the beneficiaries would lose relative to current law (2.4 of these 3.3 million couples). These gains and losses usually would be for a short period--until both spouses became eligible for benefits.

The Generic plan would have no effect on the benefits of the never-married recipients. They would receive no spousal benefits under current law and would have no shared earnings under this plan.

Distribution by Benefit Levels. The Generic plan would also affect the progressivity of the Social Security benefit structure. In general, the Generic plan would redistribute benefits in favor of low-benefit recipients. For example, widows with current law benefits below $10,000 in 2030 (in 1984 dollars) would gain, on average, whereas widows with current law benefits above this level would lose. (More details on the distribution of each plan's effects are provided in Appendix C.)

One reason for the general progressivity of this plan (and all other earnings sharing options examined in this chapter) is the progressivity of the Social Security benefit structure itself. Because the formula for converting average earnings into benefits is designed to replace a higher proportion of the earnings of low-wage workers, lower-benefit people would gain more from the addition of a portion of their spouses' or ex-spouses' earnings to their own records.

Long-Term Effects on Beneficiaries of Modified Earnings Sharing

Most of the general patterns observed for the Generic plan are found in the analysis of the Modified plan as well. The additional protection provided by the modifications would result in some of the major groups increasing their average benefits, relative to the Generic plan; no major group of recipients would have lower benefits (see Table IV-2). As noted earlier, the total benefits paid to the simulated population, ages 62 and over, would be 2.6 percent above current law benefits, compared with 1.0 percent more under the Generic plan, largely from liberalizing the special minimum provision. 16/ The difference, expressed in 1984 dollars, is about $9 billion. About three-quarters of the increment would go to married couples. 17/ The remainder would be distributed across the other groups. Recipients whose benefits under current law are relatively low would fare best, because of the special minimum benefit provisions.

Married Couples. The average benefit level of married couples under this plan would be 2 percent higher than their average benefit under current law. Couples in which the wives had worked in covered employment for at least 30 years would have average benefits about 3 percent higher under this plan than they would under current law, while other couples would have average benefits 0.3 percent less than under current law.

The Modified plan would provide higher average benefits, more gainers, and fewer losers than would the Generic plan. Couples in which the wives had shorter work histories would receive a larger share of the increment. For example, two-thirds of the reduction in the number of couples who would lose (510,000 of the 760,000) would be among the couples in which the wives had worked less than 30 years.

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16. To confirm that the key provisions in the Modified plan for elderly beneficiaries are those that would liberalize the special minimum, a set of estimates was generated in which the Modified Earnings Sharing rules other than those involving the special minimum were used. These indicated that, without the special minimum provisions, the Modified plan would provide benefits to all major elderly groups, other than married couples, nearly identical to the distribution of benefits under the Generic plan. For married couples, the other provisions would account for about one-third of the difference between the Modified and the Generic plans: the average benefit for couples would be $16,620 under the Generic plan, $16,740 under the Modified plan without the special minimum benefit provisions, and $16,990 with these provisions. Total benefits paid to elderly recipients under the Modified plan without its special minimum provisions would be 1.5 percent above current law benefits--compared with 2.6 percent with the full Modified plan and 1.0 percent with the Generic plan.

17. Of the total, $4.8 billion would go to couples in which both spouses would receive benefits under current law, and $2.5 billion to one-beneficiary couples (providing more for couples in which the husbands were the sole beneficiaries and slightly less for couples in which the wives were the only beneficiaries).

TABLE IV-2. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER RETROSPECTIVE MODIFIED EARNINGS SHARING (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Married Couples d/							
Total	12,880	16,990	2.0	3,890	2,000	2,190	1,640
Wives worked at least 30 yrs.	7,830	17,600	3.3	2,600	2,060	720	1,550
Wives worked fewer than 30 yrs.	5,050	16,050	-0.3	1,290	1,890	1,470	1,680
Widows							
Total	15,320	9,180	-0.1	6,040	1,930	4,990	2,370
Worked at least 30 yrs.	8,210	10,020	3.2	4,100	2,080	2,480	2,410
Worked fewer than 30 yrs.	7,100	8,210	-4.6	1,940	1,620	2,510	2,330
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,630	4.7	3,590	1,850	1,680	2,470
Worked at least 30 yrs.	4,650	9,050	7.6	2,880	1,820	1,010	2,250
Worked fewer than 30 yrs.	1,750	7,500	-3.6	710	1,970	670	2,800

(Continued)

TABLE IV-2. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
Other Divorced Women							
Total	2,930	7,450	20.3	2,350	1,590	70	930
Worked at least 30 yrs.	2,230	7,860	18.6	1,780	1,550	40	690
Worked fewer than 30 yrs.	710	6,140	27.7	570	1,700	30	1,270
Widowers							
Total	3,810	10,290	6.3	1,860	1,350	240	1,690
Divorced Men							
Total	4,360	8,850	-7.3	760	1,140	2,450	1,600

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

The more generous special minimum benefit provisions would make the Modified plan particularly valuable for couples whose benefits under current law would be relatively low. Couples whose benefits under current law are less than $12,500 would experience average benefit increases of 11.7 percent under this plan, compared with an increase of 2.4 percent under the Generic plan. Couples with higher current law benefits would do better under this plan too, but by much smaller amounts. 18/

Widows and Widowers. The effects of this plan on survivors would be quite similar to the effects of the Generic plan. The average benefit of widows would be 0.1 percent lower than their benefit under current law and that of widowers would be 6.3 percent higher. The corresponding effects under the Generic plan were 0.5 percent lower and 6.2 percent higher than under current law.

Divorced Beneficiaries. As under the Generic plan, the marital group that would benefit most from the Modified plan is divorced women, especially those whose former husbands are alive--their average benefit would be 20.3 percent above their current-law benefit. Among divorced women with deceased ex-spouses, the average benefit under this plan would be 4.7 percent above that of current law. Because of the minimum benefit provisions under the Modified plan, divorced women, in general, would gain more than they would under the Generic one (the comparable numbers under it were 16.6 percent and 3.9 percent).

Divorced men again would be the marital group that would lose the most. Under the Modified plan, their average benefit would be 7.3 percent below that under current law. A small number of them would be helped by the special minimum provisions, which accounts for the slight reduction in their average loss compared with the Generic plan.

Other Elderly Groups. The only people whose benefits would be lower under the Modified plan than under the Generic plan are a small number of couples in which the wives would be eligible for retirement benefits ahead of their husbands (that is, older than their husbands). Because under the Modified plan earnings would not be shared until the husbands claimed benefits as well, these women would receive the same benefits as they would under current law (unless they had shared with, or inherited from, previous

18. The average increase in benefits, relative to current law, under the Modified plan would range from 0.1 percent to 3.2 percent for the other benefit categories examined; under the Generic plan, the average reductions for these groups would range from 0.2 percent to 1.0 percent (reported in Appendix Tables C-1 and C-2).

husbands). It will be recalled that under the Generic plan these women would receive benefits based on their shared earnings records, which could be higher. As a consequence, the Modified plan is estimated to provide higher benefits, relative to current law, for 1.7 million of the 2.2 million affected couples; the Generic plan would provide higher benefits for 1.9 million of them.

For analogous reasons, fewer elderly couples in which the husband was the sole beneficiary would lose under this plan than would lose under the Generic plan. The average benefit of this group under the Modified plan would be about 2 percent below the average under current law. 19/

Finally, never-married women and men would gain under this plan as a direct result of the liberalized special minimum provisions. About 900,000 of the 3.3 million women and 200,000 of the 3.4 million men would gain. All of the gainers would be people whose benefits under current law would be less than $10,000.

POTENTIAL EFFECTS OF EARNINGS SHARING PLANS WITH TRANSITION PROVISIONS

This section analyzes the potential effects of phasing in several specific earnings sharing options. Each would share earnings prospectively (beginning in 1990) and would provide benefits based on either the Generic Earnings Sharing or the Modified Earnings Sharing plan examined above (starting in 1995).

One might argue that, in the long run, the fact that many people would receive lower benefits than they would have received under current law is not necessarily a serious problem--there would be ample time for them to adjust their work and savings activities (for example, by leaving the labor force for shorter periods of time or by retiring later than they otherwise would have), and real benefits would be much higher than they are today because of expected growth in real earnings. Regardless of the long-term results of earnings sharing, in the short run some people would lose simply because the earnings records from which their benefits would be calculated would only reflect shared earnings for a part of their worklives. If benefits

19. Under the Modified plan, the average benefit would be $9,950; 510,000 would gain, relative to current law; and 1.0 million would lose. Under the Generic plan, the average benefit would be $9,000; 400,000 would gain; and 2.4 million would lose.

were to be based on shared earnings starting only five years after implementation--as specified in both plans analyzed here--earnings sharing could produce large losses for many beneficiaries in the early years. Even in 2030, most beneficiaries would not have been covered by earnings sharing for all of the years on which their AIME would be based. A later starting date for basing benefits on shared earnings records would reduce this problem but would postpone achievement of the objectives of earnings sharing.

The effects of four sets of transition provisions are analyzed below. These provisions were described in the preceding chapter and are briefly summarized here.

- Transition I would enable survivors and divorced spouses to continue to receive benefits based on current law, rather than on earnings sharing, if based on events that occurred before the plan went into effect. 20/ A declining current law benefit guarantee is also provided, although by 2030 it would have little, if any, effect on the benefits of people retiring then.

- Transition II would provide a current law benefit guarantee to survivors of workers who died before 1995, and a declining guarantee to survivors on the basis of marriages that began before 1990. A benefit guarantee for spouses' benefits would be rapidly phased out, so it would not be available to spouses becoming eligible after 2005.

- Transition III--the set of transition provisions suggested by the Technical Committee on Earnings Sharing--contains a declining benefit guarantee intended to provide the least losses to low-benefit recipients. It was designed to accompany the Modified plan.

- Transition IV would guarantee 100 percent of current law benefits to all couples and to all unmarried beneficiaries. It was designed to accompany the Generic plan.

20. Current law survivor benefits would be guaranteed to survivors of marriages that began prior to 1990 and to survivors of spouses who died before 1995. Current law spousal benefits would also be guaranteed to divorced spouses for marriages that began before 1990.

The major effects on elderly beneficiaries of the two earnings sharing plans and the various sets of transition provisions are illustrated as follows: First, the Generic and Modified plans are examined, based on implementation of each plan with Transition I (hereafter called Generic I and Modified I, respectively). Next, the effects of Transition II and Transition III are examined based on implementation of the Modified plan with these transitions (hereafter called Modified II and Modified III). Finally, the effects of Transition IV are examined by estimating the effects of implementing the Generic plan with this no-loser guarantee (Generic IV). A table comparing the average benefits that would be provided to each major elderly group is provided at the end of this chapter.

Total Costs

The extent to which current law benefits would be guaranteed is critical in determining the cost of implementing an earnings sharing plan. Estimates of the effects on total benefits that would be paid in 2030 under the five illustrative options, relative to benefits under current law, are reported in Table IV-3.

These estimates indicate the orders of magnitude of the relative costs associated with the various plans and transition provisions. The costs of each plan, relative to current law, would vary from one year to the next, generally increasing over time. For the elderly population, the Modified plan would provide more benefits than would the Generic plan with the same set of transition provisions. For example, Modified I would increase benefits paid to this group in 2030 by 2.6 percent, compared to 1.0 percent under Generic I--virtually identical to the corresponding estimates of the long-term costs reported above. In 2030, Transition II, by removing current law benefit guarantees much more rapidly than the other transitions, would provide the lowest benefits--under Modified II, the elderly would receive 1.5 percent lower benefits than they would under current law. Transition III would provide benefit guarantees that, on average, are slightly smaller than provided by Transition I; the main differences between the two transitions involve whose benefits would be most protected. Finally, the complete guarantee provided by Transition IV would be, by far, the most costly--Generic IV would add 4.1 percent to the benefits paid to elderly beneficiaries (relative to current law), compared to 1.0 percent under Generic I.

The cost estimates for the nonelderly beneficiaries largely reflect the effects the Generic and Modified plans would have on expanding coverage for disability benefits. The basic policy issue of whether full-time homemakers should be provided disability benefits is not addressed in this study.

TABLE IV-3. EFFECTS OF EARNINGS SHARING OPTIONS ON BENEFITS PAID TO ELDERLY AND NONELDERLY RECIPIENTS IN THE YEAR 2030 a/

	Percent Change in Benefits Paid in 2030 Relative to Current Law		
Option	Elderly b/	Nonelderly	Total
Generic I	1.0	8.3	1.6
Modified I	2.6	25.4	4.5
Modified II	-1.5	24.9	0.8
Modified III	2.0	24.8	4.0
Generic IV	4.1	22.3	5.7

SOURCE: Congressional Budget Office simulations.

a. See the text for descriptions of the options.

b. Defined as recipients age 62 or older.

As previously discussed, simulation of the number of disabled beneficiaries is especially problematic. The estimates of the benefit increases for the nonelderly population under Generic I and Modified I--8.3 percent and 25.4 percent, respectively--are similar to the corresponding estimates under the retrospective Generic and Modified plans. The only substantial effect of any of the transition provisions is that the no-loser guarantee illustrated by the Generic IV option would protect many nonelderly beneficiaries from losses in current law benefits, such as disabled workers who shared with a lower-earning spouse and members of families in which the high-earning spouse is deceased or disabled. 21/

21. Both groups would be protected by the Modified plan, but not by the Generic plan.

To examine the sensitivity of these estimates to the assumptions used to project the characteristics of the simulated population, an alternative population for 2030 was simulated. Under the alternative scenario, the labor force participation rate of women in 2030 was about 10 percent higher and the divorce rate was about 20 percent higher than assumed in the baseline simulation. Under the high-participation, high-divorce set of assumptions, the estimated cost of Generic I would be 1.1 percent, rather than 1.6 percent, above current law; the estimated cost of Modified I would be 3.8 percent, rather than 4.5 percent, above current law.

The alternative set of assumptions produces a higher estimated effect of earnings sharing on elderly beneficiaries and a lower effect on nonelderly beneficiaries than are estimated with the baseline set of assumptions. For example, Generic I is estimated to increase the total benefits that would be paid to the elderly in 2030 by 1.3 percent above current law, rather than 1.0 percent; estimated benefits for the nonelderly would be 0.1 percent below current law, rather than 8.3 percent above it. The difference in the estimates for the elderly appears to result mainly from the difference in the percentage of women assumed to have worked for many years. These women have the most to gain and, of course, there would be more of them in the alternative scenario than in the baseline simulation. The difference in the estimates for the nonelderly likely results from more women being eligible for current law disability benefits in their own right under the alternative scenario. 22/

Effects on Beneficiaries of Transition I

The estimates reported in Tables IV-4 and IV-5 indicate that, by the year 2030, the Transition I provisions would generate average benefits for most elderly groups similar to the long-run averages derived for the retrospective Generic and Modified plans. Had an earlier year been chosen, the transition provisions would have played a larger role in the estimates. 23/ In general, the transition provisions would reduce the number of beneficiaries who

22. Using the alternative set of assumptions, total benefits paid to the elderly under Modified I would be 2.8 percent, rather than 2.6 percent, higher than under current law; benefits paid to the nonelderly would be 15.1 percent, rather than 25.4 percent, higher.

23. The HHS report (pp. 136-137) examined the effects of earnings sharing for the year 2010 as well. It estimates, for example, that 29 percent of the elderly couples would receive at least 1 percent less than their current law benefits under Generic I in 2010 and 44 percent would receive at least 1 percent less in 2030. If the Generic plan was implemented prospectively with no transition provisions, 37 percent of the couples would lose in 2010 and 46 percent would lose in 2030.

TABLE IV-4. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER GENERIC EARNINGS SHARING I (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
			Married Couples d/				
Total	12,880	16,590	-0.5	1,980	1,870	2,340	1,870
Wives worked at least 30 yrs.	7,830	17,260	1.4	1,500	1,890	540	1,920
Wives worked fewer than 30 yrs.	5,050	15,540	-3.4	480	1,830	1,800	1,860
			Widows				
Total	15,320	9,230	0.4	2,930	1,730	1,680	2,720
Worked at least 30 yrs.	8,210	9,870	1.7	2,340	1,790	1,110	2,610
Worked fewer than 30 yrs.	7,100	8,490	-1.2	590	1,520	570	2,930
			Divorced Women with Deceased Ex-Husbands				
Total	6,400	8,490	3.0	1,990	1,420	510	2,610
Worked at least 30 yrs.	4,650	8,760	4.1	1,650	1,390	340	2,200
Worked fewer than 30 yrs.	1,750	7,750	-0.3	340	1,570	170	3,420

(Continued)

TABLE IV-4. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
			Other Divorced Women				
Total	2,930	6,920	11.8	1,760	1,240	120	660
Worked at least 30 yrs.	2,230	7,340	10.7	1,320	1,220	80	670
Worked fewer than 30 yrs.	710	5,600	16.3	440	1,310	30	640
			Widowers				
Total	3,810	10,140	4.8	1,430	1,180	130	1,590
			Divorced Men				
Total	4,360	8,960	-6.3	490	1,000	2,280	1,340

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

TABLE IV-5. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER MODIFIED EARNINGS SHARING I (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Married Couples d/							
Total	12,880	16,960	1.8	3,390	1,810	1,640	1,550
Wives worked at least 30 yrs.	7,830	17,560	3.1	2,320	1,840	400	1,510
Wives worked fewer than 30 yrs.	5,050	16,040	-0.4	1,070	1,750	1,240	1,570
Widows							
Total	15,320	9,270	0.8	3,220	1,710	1,650	2,700
Worked at least 30 yrs.	8,210	9,910	2.1	2,480	1,770	1,090	2,580
Worked fewer than 30 yrs.	7,100	8,530	-0.8	740	1,500	560	2,920
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,600	4.4	2,380	1,490	510	2,530
Worked at least 30 yrs.	4,650	8,870	5.4	1,950	1,430	340	2,160
Worked fewer than 30 yrs.	1,750	7,880	1.3	420	1,740	170	3,250

(Continued)

TABLE IV-5. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Other Divorced Women							
Total	2,930	7,230	16.7	2,160	1,420	90	650
Worked at least 30 yrs.	2,230	7,660	15.4	1,650	1,390	70	590
Worked fewer than 30 yrs.	710	5,880	22.3	520	1,510	20	780
Widowers							
Total	3,810	10,160	4.9	1,430	1,190	130	1,450
Divorced Men							
Total	4,360	9,000	-5.8	590	990	2,160	1,360

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

would lose, relative to current law, from the implementation of either plan, while the lack of a complete work lifetime of earnings sharing for many beneficiaries would reduce the number who would gain.

The estimates for the Generic plan illustrate these patterns. Under Generic I the estimated average benefit of married couples in 2030 would be $16,590, with about 2.0 million couples gaining and 2.3 million couples losing at least 5 percent (see Table IV-4). 24/ Under the fully implemented Generic plan--as depicted by the retrospective earnings sharing results reported in Table IV-1--the average benefit would be $16,620; 2.6 million couples would gain and 2.9 million couples would lose at least 5 percent. Likewise, Modified I would provide couples with an average benefit of $16,960, which would be within $30 of their estimated benefit under the fully implemented Modified plan--but with about 500,000 fewer couples either gaining or losing at least 5 percent.

The current law guarantee is especially important for widows. They would be guaranteed their current law benefits if they were married before 1990 or if their husbands died before 1995. Thus, the number of widows estimated to lose under either plan with Transition I is 1.7 million (11 percent of all widows), compared with 5.0 million (33 percent) under either plan implemented retrospectively without transition provisions. On the other hand, the 2.9 million widows who would gain under Generic I and the 3.2 million who would gain under Modified I are fewer than estimated above (5.9 million and 6.0 million, respectively) because they would have had a shorter period in which to share (and inherit) earnings records.

Divorced beneficiaries whose marriages ended before 1990, or whose former husbands died before 1995, would be guaranteed their current law benefit. This would have a major effect on divorced women with deceased ex-husbands, many of whom would otherwise have had substantial losses as a result of either earnings sharing plan. Recall that, under current law, eligible divorced survivors can receive up to 100 percent of their ex-spouses' benefits. The estimated number who would lose under Generic I or

24. It will be recalled that HHS focuses on gains and losses of 1 percent or more, whereas the CBO analysis counts changes of 5 percent or more. For married couples, in particular, this difference is important because the majority of couples with gains and losses under Generic I are estimated to incur changes of less than 5 percent. Thus, HHS reports (on p. 6 of the Executive Summary and on p. 39 of the text) that 37 percent of the couples would gain and 44 percent would lose, whereas the corresponding CBO estimates are 15 percent and 18 percent. The difference is almost entirely due to the different percentage thresholds, as Table A5 on p. 434 of the HHS report indicates that 17 percent of couples are gainers of at least 5 percent and 18 percent are losers.

Modified I is about 500,000, compared with 1.7 million under retrospective earnings sharing. Even though many of the divorced women with deceased ex-spouses who would be expected to gain from earnings sharing would not have shared and inherited earnings from complete work histories, 2.4 million would still gain; the estimates for the retrospective plans, which may better reflect the long-term effects of inheritance, indicate that about 3.5 million would gain.

As previously discussed, divorced women with no deceased ex-husbands would do, on average, much better in the long run under either earnings sharing plan than they would under current law, and divorced men would do worse. These patterns hold for the results in 2030 under Transition I as well, but the average impacts would not be as large--because many of the divorced beneficiaries whose marriages included years prior to 1990 would have had some married years in which earnings were not shared, and the transition guarantees would protect beneficiaries who would otherwise lose.

Finally, it is important to note that the implementation of Generic I would have a major effect on the benefit levels of some beneficiaries--even though, for the majority of beneficiaries, the impacts would be small. For example, among the 6.7 million widows and divorced women who would have gains of at least 5 percent, the average gain would be about 20 percent; among the 2.3 million unmarried women who would incur losses of at least 5 percent, the average loss would be about 25 percent. An estimated 610,000 unmarried women (2.5 percent of this group) would gain at least 40 percent, and 340,000 (1.4 percent) would lose at least this percentage of their current law benefits. 25/

Effects of Transition II

Transition II would not provide as much protection in 2030 as would Transition I. Therefore, the simulated population would, in general, have lower average benefits and more losers (relative to current law) under this set of transition provisions than under Modified I. More recipients in every current law benefit group would lose under Transition II than under Modified I. The estimated number of beneficiaries who would gain is virtually unaffected by the choice of transition provisions because current law guarantees, of course, cannot result in beneficiaries doing better than they

25. The changes for married couple beneficiaries are not as large because generally the losses of one spouse would offset the gain of the other. The estimated average gain or loss of couples whose benefits would change by at least 5 percent is 11 percent, with very few couples estimated to gain or lose more than 30 percent. Among the group with the largest proportion of beneficiaries who incur reduced benefits--divorced men--the average loss would be about 13 percent, with most of them losing less than 20 percent.

would have done under current law. These patterns are illustrated by estimates of the benefits that would be paid in 2030 under Modified II (see Table IV-6). 26/

The major differences are for widows and divorced women with deceased ex-husbands. Modified II would reduce the average benefit of widows by 11.5 percent of the amount under current law--compared with a 0.8 percent average increase under Modified I. The average benefit for divorced women with deceased ex-husbands also would be reduced below current law under Modified II and increased under Modified I. For both groups, the results reflect much larger numbers of beneficiaries who would lose under Modified II. One reason these women's benefits are especially sensitive to the transition rules is that they would be the oldest of the major groups examined and thus least likely to have been able to inherit their husbands' or ex-husbands' full earnings records.

Effects of Transition III

Transition III (the provisions suggested by the Technical Committee on Earnings Sharing) would produce a different pattern of benefits than either of the other transitions, largely because the extent of the current law benefit guarantee would vary according to the size of the PIA on which it was based. Low-benefit recipients would be helped by Modified III in two ways--by the special minimum provisions of the Modified plan and by the tilt in the benefit formula transition arrangements. In general, the average benefits that would be paid to widows and divorced women with deceased ex-husbands under Modified III are lower than would be paid under Modified I and higher than would be paid under Modified II (see Table IV-7). 27/

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26. There would be 40,000 fewer couples who would gain under Modified II than under Modified I. This results from one spouse gaining under the Modified plan (regardless of which transition is used) and the other spouse being protected from losses under Transition I but not under Transition II.

27. The effects of this plan on beneficiaries--especially on widows--are quite sensitive to the number of years that earnings are shared. The estimates presented here were based on the assumption that earnings records would start to be shared in 1990, thereby providing 40 years during which records could be shared. As the plan is described by Sheila Zedlewski in "The Distributional Consequences of an Earnings Sharing Proposal," Project Report No. 3344 (Washington, D.C.: The Urban Institute, December 1984), records would be shared starting in 1985. CBO estimates that the additional five years of shared earnings would increase (relative to the estimates reported in Table IV-7) the average benefits of married couples by $100; of widows by $200; and of divorced women by $200.

Divorced women with no deceased former husbands would do best under Transition III because it would provide protection as if the current law divorced-spouse benefit equalled two-thirds, rather than one-half, of the worker benefit. As previously discussed, many divorced women whose husbands are alive would gain because earnings sharing would generally provide them with more than a benefit based either on their own earnings or on half of their husbands' benefits. Others would gain because of the special minimum benefit provisions in the Modified plan.

Effects of a "No-Loser" Transition

All of the earnings sharing options analyzed in this chapter thus far would result in some beneficiaries receiving lower benefits than they would receive under current law. In general, the major groups of "losers" would include many married couples in which the wives had little covered earnings, many widows and divorced women with deceased ex-husbands, and divorced men. Their losses, in effect, would pay for some or all of the gains that would accrue to other beneficiaries as a result of implementing earnings sharing.

An alternative approach would be to provide recipients with the higher of their benefits under earnings sharing or under current law. This would require a transition provision in which beneficiaries would be guaranteed 100 percent of current law benefits for a specified period or indefinitely. This "no-loser" approach would, of course, cost much more to implement than would the other transition options during the period in which the guarantee was in force.

This approach would require, in effect, the operation of two parallel benefit structures--one based on current law and the other based on earnings sharing. If the guarantee was later to be removed, the issue of how to make that transition would need to be addressed. Delaying the removal of the current law guarantee would enable more beneficiaries to have shared earnings records throughout their careers, however. Nonetheless, as illustrated by the estimates for retrospective earnings sharing, there would still be a number of beneficiaries who would have lower benefits under either of the fully implemented earnings sharing plans than they would under current law.

The no-loser approach can be illustrated by adding a guarantee to the Generic plan, as was done in the HHS report. In that analysis, each beneficiary was guaranteed his or her benefit under current law. For couples, this means that in the typical case in which one spouse would gain

TABLE IV-6. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER MODIFIED EARNINGS SHARING II (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Married Couples d/							
Total	12,880	16,900	1.4	3,350	1,810	1,900	1,720
Wives worked at least 30 yrs.	7,830	17,490	2.7	2,300	1,840	530	1,950
Wives worked fewer than 30 yrs.	5,050	15,970	-0.8	1,050	1,750	1,380	1,630
Widows							
Total	15,320	8,140	-11.5	3,220	1,710	7,960	2,720
Worked at least 30 yrs.	8,210	9,040	-6.8	2,480	1,770	3,820	2,580
Worked fewer than 30 yrs.	7,100	7,090	-17.6	740	1,500	4,130	2,860
Divorced Women with Deceased Ex-Husbands							
Total	6,400	7,700	-6.5	2,380	1,490	2,440	2,860
Worked at least 30 yrs.	4,650	8,190	-2.7	1,950	1,430	1,500	2,580
Worked fewer than 30 yrs.	1,750	6,410	-17.6	420	1,740	940	3,310

(Continued)

TABLE IV-6. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Other Divorced Women							
Total	2,930	7,210	16.4	2,160	1,420	150	870
Worked at least 30 yrs.	2,230	7,650	15.4	1,650	1,390	80	660
Worked fewer than 30 yrs.	710	5,810	20.7	520	1,510	70	1,120
Widowers							
Total	3,810	10,130	4.7	1,430	1,190	180	1,480
Divorced Men							
Total	4,360	8,980	-6.0	590	990	2,220	1,370

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

TABLE IV-7. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER MODIFIED EARNINGS SHARING III (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Married Couples d/							
Total	12,880	17,070	2.5	3,880	1,760	1,320	1,580
Wives worked at least 30 yrs.	7,830	17,640	3.6	2,590	1,790	360	1,510
Wives worked fewer than 30 yrs.	5,050	16,200	0.6	1,290	1,700	950	1,600
Widows							
Total	15,320	8,990	-2.2	3,250	1,710	5,300	1,500
Worked at least 30 yrs.	8,210	9,710	0.0	2,500	1,770	2,780	1,490
Worked fewer than 30 yrs.	7,100	8,170	-5.0	750	1,510	2,520	1,520
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,400	2.0	2,500	1,510	1,720	1,490
Worked at least 30 yrs.	4,650	8,660	2.9	2,000	1,460	1,120	1,490
Worked fewer than 30 yrs.	1,750	7,720	-0.8	490	1,720	600	1,480

(Continued)

TABLE IV-7. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Other Divorced Women							
Total	2,930	7,300	17.9	2,260	1,450	70	690
Worked at least 30 yrs.	2,230	7,710	16.2	1,690	1,430	50	680
Worked fewer than 30 yrs.	710	6,040	25.5	580	1,510	10	750
Widowers							
Total	3,810	10,160	4.9	1,430	1,190	130	1,250
Divorced Men							
Total	4,360	9,070	-5.1	590	990	2,060	1,270

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

from earnings sharing and the other would lose, the former would still gain and the latter would not lose. Consequently, many couples whose combined benefits under Generic I would be at least as high as their benefits under current law would nonetheless be receiving additional benefits from the guarantee. 28/

The option analyzed by CBO would guarantee couples their combined benefits under current law, rather than their individual benefits. (For beneficiaries other than married couples, the guarantee modelled by CBO is the same as the one in the HHS report.) Guaranteeing combined, rather than individual, benefits would thereby limit the protection to couples who would otherwise lose benefits if earnings sharing were implemented. One problem, however, is that it might be possible for couples to increase their total benefits by divorcing--because if one ex-spouse would gain and the other would lose under earnings sharing, the guarantee would protect the latter if they were not still married.

The total benefits going to elderly recipients in 2030 under this option would be 4.1 percent above the current law total for these recipients. The estimated difference between the total benefits that would be paid to the elderly in 2030 under Generic IV and under Generic I--3.1 percent of current law benefits or about $19 billion (in 1984 dollars)--illustrates the cost of providing complete protection of current law benefits. The effects on major groups of elderly beneficiaries are reported in Table IV-8. Every couple and every individual beneficiary who would have lost under the Generic I plan (reported in Table IV-6 above) would receive, instead, the current law benefit.

A complete current law guarantee, then, would cost much more than the same earnings sharing plan without such a guarantee. The additional benefits would go to people who would otherwise incur benefit reductions. This would be one way of assuring that many widows and others who might be worse off under earnings sharing would not incur losses as a result of earnings sharing. One consequence of guaranteeing individual benefits, however, would be less progress toward achieving the objective of having benefits for couples no longer affected by the proportion of total covered wages earned by each spouse.

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28. CBO estimates that the version of the no-loser guarantee in the HHS report would increase the average benefit of married couples by 8.6 percent, whereas the version reported here would increase their average benefit by 2.4 percent (each relative to current law). Because the estimates for the other groups are the same for both versions, CBO estimates that the version in the HHS report would increase total benefits in 2030 paid to elderly recipients by 6.4 percent, compared to 4.1 percent in this version.

CONCLUSIONS REGARDING THE EARNINGS SHARING PLANS

What would earnings sharing accomplish? The answer depends, in part, on the specific provisions of the plan and the extent to which current law benefits would be guaranteed. Table IV-9 summarizes the major results of CBO's analysis.

In general, the plans examined in this chapter would move the Social Security benefit structure closer to the achievement of three key objectives of their proponents. First, the combined retirement benefits of couples would be less affected by the proportion of total covered wages earned by each spouse. For example, the difference in average benefits between couples in which the wives worked at least 30 years and other couples would widen from about \$900 (\$17,030 for the former and \$16,100 for the latter) to between \$1,200 and \$1,700, depending on which version was implemented. Guarantees of current law benefits tend to reduce this effect of earnings sharing, with Generic IV producing the smallest effect.

Second, the benefits paid to survivors would also be less affected by the proportion of total wages earned by each spouse. Under current law, widows who worked at least 30 years would have an average benefit of \$9,710--about \$1,100 above that of other widows. Under the various versions of earnings sharing examined here, this difference would widen to between \$1,400 and \$2,000. This would occur, however, mainly from reductions of up to \$1,500 in the average benefits of widows with relatively short work histories; even under the most generous transition provisions, widows with substantial work histories would only gain an average of \$600. One reason widows would not do much better under these earnings sharing plans is that the actuarial rules favorable to them under current law would be eliminated.

Third, divorced women (especially those with no deceased ex-husbands) would receive significantly higher benefits under these earnings sharing plans than under current law. The average benefit of divorced women with no deceased ex-husbands would increase by about 12 percent (to \$6,920) under Generic I and by even more under the various versions of the Modified plan. That of divorced women with deceased ex-husbands would increase by 3 percent (to \$8,490) under Generic I; under Modified I and Modified III, their average benefit would also be higher than under current law; but under Modified II, it would be about 7 percent lower. Divorced men would, in effect, be paying for part of the gains of divorced women (except with Generic IV). Their average benefits would decrease by about 6 percent (to \$9,000).

TABLE IV-8. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER GENERIC EARNINGS SHARING IV
(Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/	
				Number	Average Gain
Married Couples d/					
Total	12,880	17,060	2.4	1,980	1,870
Wives worked at least 30 yrs.	7,830	17,520	2.9	1,500	1,890
Wives worked fewer than 30 yrs.	5,050	16,330	1.5	480	1,830
Widows					
Total	15,320	9,540	3.7	2,930	1,730
Worked at least 30 yrs.	8,210	10,230	5.4	2,340	1,790
Worked fewer than 30 yrs.	7,100	8,730	1.5	590	1,520
Divorced Women with Deceased Ex-Husbands					
Total	6,400	8,700	5.5	1,990	1,420
Worked at least 30 yrs.	4,650	8,930	6.1	1,650	1,390
Worked fewer than 30 yrs.	1,750	8,090	4.0	340	1,570

(Continued)

TABLE IV-8. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Average Gain
		Other Divorced Women			
Total	2,930	6,960	12.4	1,760	1,240
Worked at least 30 yrs.	2,230	7,380	11.3	1,320	1,220
Worked fewer than 30 yrs.	710	5,630	17.0	440	1,310
		Widowers			
Total	3,810	10,200	5.4	1,430	1,180
		Divorced Men			
Total	4,360	9,690	1.4	490	1,000

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains are for the beneficiaries whose benefits under the plan would be at least 5 percent higher than their benefits under current law in the simulation year.

c. Relative to benefit under current law.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

TABLE IV-9. AVERAGE ANNUAL SOCIAL SECURITY BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER ALTERNATIVE BENEFIT PLANS
(Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Benefits: Current Law	Benefits: Generic I	Benefits: Modified I	Benefits: Modified II	Benefits: Modified III	Benefits: Generic IV
		Married Couples b/					
Total	12,880	16,670	16,590	16,960	16,900	17,070	17,060
Wives worked at least 30 yrs.	7,830	17,030	17,260	17,560	17,490	17,640	17,520
Wives worked fewer than 30 yrs.	5,050	16,100	15,540	16,040	15,970	16,200	16,330
		Widows					
Total	15,320	9,190	9,230	9,270	8,140	8,990	9,540
Worked at least 30 yrs.	8,210	9,710	9,870	9,910	9,040	9,710	10,230
Worked fewer than 30 yrs.	7,100	8,600	8,490	8,530	7,090	8,170	8,730
		Divorced Women with Deceased Ex-Husbands					
Total	6,400	8,240	8,490	8,600	7,700	8,400	8,700
Worked at least 30 yrs.	4,650	8,420	8,760	8,870	8,190	8,660	8,930
Worked fewer than 30 yrs.	1,750	7,780	7,750	7,880	6,410	7,720	8,090

(Continued)

TABLE IV-9. (Continued)

Group	Number of Beneficiaries	Benefits: Current Law	Generic I	Modified I	Modified II	Modified III	Generic IV
		Other Divorced Women					
Total	2,930	6,190	6,920	7,230	7,210	7,300	6,960
Worked at least 30 yrs.	2,230	6,630	7,340	7,660	7,650	7,710	7,380
Worked fewer than 30 yrs.	710	4,810	5,600	5,880	5,810	6,040	5,630
		Widowers					
Total	3,810	9,680	10,140	10,160	10,130	10,160	10,200
		Divorced Men					
Total	4,360	9,550	8,960	9,000	8,980	9,070	9,690
		Percentage Change in Total Benefits in 2030 Paid to Elderly Recipients Relative to Current Law c/					
Total	--	--	1.0	2.6	-1.5	2.0	4.1

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 and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

c. These estimates include elderly groups not shown in the table--about 5.4 million couples in which only one spouse would be receiving benefits and 6.7 million never-married individuals.

The estimates reported in this chapter also highlight several problems and issues. In particular, elderly women who had been outside the paid labor force for many years would, in general, incur losses: married couples in which the wife had worked less than 30 years and widows who had worked less than 30 years generally would be worse off on average under earnings sharing than under current policy. They could be protected by guaranteeing them some or all of their current law benefits, but this would raise the total cost of earnings sharing and prevent equalization of benefits for one- and two-earner couples, and their survivors, with the same total earnings.

In addition, the transition provisions accompanying an earnings sharing plan can play an important role in the plan's effects--even 40 years after implementation. A rapid transition to a new benefit structure based entirely on earnings sharing, such as would occur with Transition II, would result in many beneficiaries incurring losses because of being caught in the middle of the change in benefit rules. A slow transition would raise total costs. The provisions suggested by the Technical Committee (Transition III) illustrate how transition rules could be structured in a way that would provide greater protection for low-benefit recipients than for high-benefit recipients, but would do so by altering the existing redistributive balance in the program.

A key issue in the development and assessment of earnings sharing plans is the extent to which the gains to some beneficiaries should be paid for by others through reductions in their benefits (relative to current law). One way or another, higher benefits for some recipients must be paid for--either through lower benefits for others or through higher taxes.

CHAPTER V

INCREMENTAL OPTIONS

Earnings sharing is not the only way in which Social Security might be modified to address the concerns discussed in Chapter II; a number of other, less far-reaching, methods could be used. The HHS report analyzed a variety of these measures, including some that would increase benefits for working spouses, surviving spouses, and divorced spouses. These approaches would generally build on features that already exist under current law, and could affect benefits for those retiring in the relatively near term. They could be used either to complement earnings-sharing proposals that would not be effective for many years, or as substitutes.

HHS examined 24 incremental options designed to mitigate problems with the current benefit structure, evaluating each independently of the others. CBO has no fundamental disagreement with the HHS analyses of these options. 1/ Because the Congress may want to consider implementing more than one of the options, CBO has examined combinations of them. For example, these combinations include options that would address the disparities in benefits received by the survivors of one- and two-earner couples, and others that could be used to improve the adequacy of benefits for elderly divorced spouses. The combinations of incremental options presented below are meant to illustrate possible approaches, and should not be construed as recommendations.

It should be noted that modifications in the benefit structure might have unintended effects. For example, increasing divorced spouses' benefits might encourage some couples to divorce. Similarly, incremental changes designed to assist low-income beneficiaries might increase the income of relatively affluent recipients as well, and might also entail significant costs. In fact, if the aim is to increase the incomes of the poorest recipients of Social Security, altering the benefit structure may be less efficient than focusing on means-tested programs such as Supplemental Security Income (SSI), to achieve the same goals at lower cost. But the pros and cons of doing so are beyond the scope of this report.

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1. The Congress might wish to modify some of them. For example, the zero earnings requirement for child care dropout years would cause a notch to result between the benefits received by different groups of women because women with very low earnings might receive lower benefits than otherwise similar persons with no earnings in a given year.

DESCRIPTION OF THE OPTIONS

CBO has selected three specific options from the HHS report for analysis. Two options deal with the issue of disparate benefits for the survivors of one- and two-earner couples who had the same combined earnings. The other option would provide higher benefits for divorced spouses. For purposes of comparison, CBO has analyzed a second option for divorced spouses as well. Each of these options would guarantee current law benefits to recipients, thereby ensuring that no one would lose from the changes.

The alternatives are presented in four different combinations, with each of the survivor options being packaged with a divorced spouse option. They are analyzed in terms of their impacts on benefit levels in 2030, to make them comparable with the analyses already presented. Unlike earnings sharing, these changes could be implemented relatively quickly, so that their effects would be greater in earlier years. The options for survivors are as follows:

- Survivors would inherit all of the earnings credits of their deceased spouses for the years during which they were married, including those prior to enactment of this option. These credits would be combined with the survivors' earnings credits, subject to the limitation that the total in any year could not exceed the taxable maximum wage. A beneficiary's earnings record for years in which he or she was not married would not be altered.

- Alternatively, survivors' benefits would equal two-thirds of the sum of their own retirement or disability benefits and the benefits for which they would be eligible as surviving spouses.

The options for divorced spouses are as follows:

- Divorced spouses' benefits would be raised by one percentage point for each year of marriage over 10 and up to 35 years. Therefore, benefits would equal 50 percent of the former spouses' PIAs for marriages lasting 10 years and rise to 75 percent for marriages ending in divorce that lasted at least 35 years. The current law requirement for duration of marriage--10 years--would remain unchanged, and the higher divorced spouses' benefits would not be available until two years after the final divorce decree. Actuarial reductions would be computed in the same manner as now.

o Divorced spouses' benefits would be increased from 50 percent to 75 percent of the former spouses' PIAs, but these higher benefits would be payable beginning two years after the final divorce decree. This option was not included in the HHS report.

Thus the four packages or combinations of options are:

o Package A: Inheritance of earnings credits and increased divorced spouses' benefits depending on the length of marriage (options 1 and 3);

o Package B: Survivors' benefits equal to two-thirds of the combined worker/survivor benefits and increased divorced spouses' benefits depending on the length of marriage (options 2 and 3);

o Package C: Inheritance of earnings credits and a 75-percent-of-PIA divorced spouses' benefit (options 1 and 4); and

o Package D: Survivors' benefits equal to two-thirds of the combined worker/survivor benefits and a 75-percent-of-PIA divorced spouses' benefit (options 2 and 4).

COMPARISON OF PACKAGES OF INCREMENTAL OPTIONS

The incremental options, as indicated earlier, may be considered either as alternatives or as complements to earnings sharing proposals. In this section, the relative costs of the four packages and their effects on beneficiaries are discussed and compared with the earnings sharing options. The simulated benefits for the four packages are also compared to one another for their potential effects on elderly widowed and divorced populations. Finally, issues relating to the use of these packages or other incremental options as part of the transition to a fully implemented earnings sharing system are discussed.

Total Increases in Benefits Under the Packages of Incremental Options

Total benefit payments in 2030 from an incremental package would be 3.6 percent to 4.2 percent higher than under current law (see Table V-1), an increase (in 1984 dollars) of $23 billion to $27 billion in 2030 Social Security benefit payments. (These costs are somewhat different from those produced by the Office of the Actuary. See Appendix A for a discussion of these

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differences and of the potential near-term budget costs.) The highest cost would be that for Package C--the combination of inheritance of earnings credits and the flat 75 percent divorced spouses' benefit--while the smallest increase in benefits would be under Package B--two-thirds of the combined worker/survivor benefit plus the divorced spouses' benefit scaled to years of marriage.

Overall, the costs of the incremental packages are similar to those of the Modified Earnings Sharing plans with the first and third transition options. The incremental plans have virtually all of their impact on elderly beneficiaries, however, whereas the earnings sharing plans would provide substantial increases to many nonelderly as well. For example, Package D--two-thirds of the combined worker/survivor benefit and the 75 percent divorced spouses' benefit--would increase 2030 total benefit payments by the same percentage as the Modified III plan, but the average increase for the elderly would be 4.4 percent under Package D and about 2.0 percent under the earnings sharing plan.

By far the largest component of the costs is attributable to the options dealing with survivors (1 and 2) rather than to those for divorced spouses (3 and 4). If inheritance of earnings credits (Option 1) or two-thirds of the

TABLE V-1. PERCENTAGE CHANGE IN TOTAL OASDI BENEFIT PAYMENTS IN 2030 UNDER FOUR PACKAGES OF INCREMENTAL OPTIONS

	Under Age 62	Age 62 or Older	All Ages
Package A	0.7	4.2	3.9
Package B	0.0	4.0	3.6
Package C	0.7	4.5	4.2
Package D	0.0	4.4	4.0

SOURCE: Congressional Budget Office.

combined benefits (Option 2) were implemented alone, the increased benefit costs would amount to 3.6 percent and 3.3 percent, respectively. By comparison, the divorced spouse options are much less expensive--0.3 percent for Option 3, and 0.7 percent for Option 4--although Option 4 is more than twice as expensive as Option 3.

Comparison of the Packages with Earnings Sharing Plans

The packages of incremental options detailed here would chiefly affect widowed and divorced persons. They would also have a small effect on married couples, but only the results for widows, widowers, and divorced men and women are presented here.

Tables V-2 through V-6 display the simulation results. The packages would provide higher benefits on average to widows, widowers, divorced women with at least one deceased spouse, and divorced men than would be provided under current law or under any of the earnings sharing plans. Divorced women whose former husband(s) still survived would receive, on average, more from Packages A and B than under current law, but less than they would receive under the earnings sharing proposals. Packages C and D, which would provide a 75 percent divorced spouses' benefit to all those meeting the duration of marriage requirement, would increase benefits more than some earnings sharing plans but less than the most generous ones.

Because the packages incorporate present law benefit guarantees, no beneficiary would experience benefit reductions relative to current law--which necessarily would increase program costs. Because virtually all of the additional benefits would be targeted on widows and divorced persons, the packages would permit much larger increases among the target groups than would the earnings sharing proposals. For example, average benefits for widows under Package A would be 8.1 percent higher than under the Generic I earnings sharing plan and 8.5 percent above current law levels (see Table V-2). In addition, approximately twice as many of these widows would gain more than 5 percent relative to current law under Packages A and C than under Generic I. Under Packages B and D, the ratio would be almost 3 to 1.

Divorced women with deceased former spouses are simulated to receive, on average, about 10 percent higher benefits under Packages A and B than under current law. In contrast, average increases for this elderly group under the earnings sharing plans would range from 2.0 percent under the Modified III plan to 5.5 percent under the Generic IV plan (see Table V-3).

TABLE V-2. ANNUAL BENEFITS OF WIDOWS IN THE YEAR 2030 UNDER EARNINGS SHARING AND UNDER FOUR PACKAGES OF INCREMENTAL OPTIONS (Numbers of beneficiaries in thousands, benefits in 1984 dollars) a/

Option	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
Earnings Sharing Alternatives						
Generic I	9,230	0.4	2,930	1,730	1,680	2,720
Modified I	9,270	0.8	3,220	1,710	1,650	2,700
Modified III	8,990	-2.2	3,250	1,710	5,300	1,500
Generic IV	9,540	3.7	2,930	1,730	--	--
Incremental Packages						
Package A	9,980	8.5	6,150	1,900	--	--
Package B	10,010	8.9	8,410	1,440	--	--
Package C	9,980	8.6	6,200	1,910	--	--
Package D	10,020	8.9	8,430	1,450	--	--

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. The 15.32 million 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-3. ANNUAL BENEFITS OF DIVORCED WOMEN WITH DECEASED EX-HUSBANDS IN THE YEAR 2030 UNDER EARNINGS SHARING AND UNDER FOUR PACKAGES OF INCREMENTAL OPTIONS (Numbers of beneficiaries in thousands, benefits in 1984 dollars) a/

Option	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
			Earnings Sharing Alternatives			
Generic I	8,490	3.0	1,990	1,420	510	2,610
Modified I	8,600	4.4	2,380	1,490	510	2,530
Modified III	8,400	2.0	2,500	1,510	1,720	1,490
Generic IV	8,700	5.5	1,990	1,420	--	--
			Incremental Packages			
Package A	9,100	10.4	3,280	1,640	--	--
Package B	9,070	10.1	3,300	1,580	--	--
Package C	9,200	11.6	3,410	1,770	--	--
Package D	9,200	11.6	3,540	1,700	--	--

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. The 15.32 million 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-4. ANNUAL BENEFITS OF DIVORCED WOMEN WITHOUT DECEASED EX-HUSBANDS IN THE YEAR 2030 UNDER EARNINGS SHARING AND UNDER FOUR PACKAGES OF INCREMENTAL OPTIONS (Numbers of beneficiaries in thousands, benefits in 1984 dollars) a/

Option	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
			Earnings Sharing Alternatives			
Generic I	6,920	11.8	1,760	1,240	120	660
Modified I	7,230	16.7	2,160	1,420	90	650
Modified III	7,300	17.9	2,260	1,450	70	690
Generic IV	6,960	12.4	1,760	1,240	--	--
			Incremental Packages			
Package A	6,700	8.2	1,020	1,440	--	--
Package B	6,700	8.2	1,020	1,440	--	--
Package C	7,170	15.8	1,420	2,010	--	--
Package D	7,170	15.8	1,420	2,010	--	--

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. The 15.32 million 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-5. ANNUAL BENEFITS OF WIDOWERS IN THE YEAR 2030 UNDER EARNINGS SHARING AND UNDER FOUR PACKAGES OF INCREMENTAL OPTIONS (Numbers of beneficiaries in thousands, benefits in 1984 dollars) a/

Option	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
Earnings Sharing Alternatives						
Generic I	10,140	4.8	1,430	1,180	130	1,590
Modified I	10,160	4.9	1,430	1,190	130	1,450
Modified III	10,160	4.9	1,430	1,190	130	1,250
Generic IV	10,200	5.4	1,430	1,180	--	--
Incremental Packages						
Package A	10,450	7.9	2,060	1,270	--	--
Package B	10,330	6.7	1,660	1,440	--	--
Package C	10,450	7.9	2,060	1,270	--	--
Package D	10,330	6.7	1,660	1,440	--	--

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. The 15.32 million 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-6. ANNUAL BENEFITS OF DIVORCED MEN IN THE YEAR 2030 UNDER EARNINGS SHARING AND UNDER FOUR PACKAGES OF INCREMENTAL OPTIONS (Numbers of beneficiaries in thousands, benefits in 1984 dollars) a/ b/

Option	Average Benefit Under Plan	Percent Change d/	Beneficiaries Who Would Gain At Least 5 % c/ Number	Beneficiaries Who Would Gain At Least 5 % c/ Average Gain	Beneficiaries Who Would Lose At Least 5 % c/ Number	Beneficiaries Who Would Lose At Least 5 % c/ Average Loss
Earnings Sharing Alternatives						
Generic I	8,960	-6.3	490	1,000	2,280	1,340
Modified I	9,000	-5.8	590	990	2,160	1,360
Modified III	9,070	-5.1	590	990	2,060	1,270
Generic IV	9,690	1.4	490	1,000	--	--
Incremental Packages						
Package A	9,810	2.7	810	1,150	--	--
Package B	9,760	2.1	590	1,450	--	--
Package C	9,820	2.8	840	1,180	--	--
Package D	9,770	2.3	630	1,470	--	--

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plans. The 15.32 million beneficiaries depicted in this table are age 62 or older.

b. The relatively small unweighted number of divorced men precludes the separate treatment of those with and without a deceased former spouse.

c. 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.

d. Relative to benefit under current law.

Compared with the various earnings sharing plans, the inheritance of earnings histories combined with the increase in divorced spouses' benefits linked to the length of the marriage (Package A) would have about two-thirds more gainers than the Generic I and Generic IV plans, and about 30 to 40 percent more than the Modified I and III plans. Setting all divorced spouses' benefits equal to 75 percent of their former spouses' PIAs would result in slightly larger increases on average for divorced women with deceased ex-spouses--Packages C and D both would increase benefits 11.6 percent--because a slightly higher percentage would gain than under Packages A and B. The benefits of some women with deceased ex-husbands would be affected by the rules governing divorced spouses because they also have living ex-husbands.

The simulation results indicate that widowers would also fare better under either package than under earnings sharing. On average, Packages A and B would raise their benefits by 7.9 and 6.7 percent respectively, whereas the average gain under the four earnings sharing plans displayed in Table V-5 would be 4.8 to 5.4 percent. Moreover, the proportion of widowers gaining at least 5 percent relative to current law would be about 54 percent under Package A, 44 percent under Package B, and about 38 percent under the earnings sharing plans. More widowers gain under these incremental options because they can benefit from earnings before 1990 and because none of them lose by sharing earnings with a living former spouse. Packages C and D containing the flat 75 percent divorced spouses' benefit would have no greater effect on widowers than would Packages A and B.

Divorced men would, on average, receive small increases in benefits under all four packages of incremental changes, in contrast to the average reductions they would experience under three of the four earnings sharing alternatives shown in Table V-6. The combination of the inheritance of credits and either of the two divorced spouses' benefit options (Packages A and C) would result in about 19 percent of divorced men receiving increases of 5 percent or more. On the other hand, Packages B and D and the earnings sharing plans would have somewhat smaller percentages of gainers, ranging from 11 percent to 14 percent.

Under Packages A and B, the only elderly group that would fare less well than under earnings sharing would be divorced women whose ex-spouses were still alive (see Table V-4). In contrast to the earnings sharing proposals, which would raise their benefits by roughly 12 percent to 18 percent, Packages A and B would increase average benefits by about 8 percent. Moreover, the earnings sharing proposals would have 70 percent to 120 percent more gainers than would these two incremental combinations. The more favorable treatment of divorced women under earnings sharing would result from the fact that they would benefit from the sharing of earnings while their ex-spouses survived. Moreover, when the divorced spouses' benefit is related to years of marriage, many divorced women would get little or no additional benefits either because they had been married not much longer than 10 years, or because their worker benefits would exceed their potential divorced spouse benefits. Making the divorced spouses' benefit a flat 75 percent would provide about 40 percent more gainers than under the alternative divorced spouses' benefit option, and the gainers would receive 40 percent larger increases as well.

Comparison of the Packages with Each Other

Differences between the individual packages stem from their different treatment of survivors and of divorced persons. Widows, widowers, and divorced persons who survived their ex-spouses would be principally affected by whether the specific package allowed inheritance of credits or provided two-thirds of the combined benefits. On the other hand, elderly divorced recipients whose former spouses were still alive could only receive additional benefits as a result of the more generous divorced spouses' benefit.

Tables V-7 through V-10 present the simulated distributional effects of the various incremental packages for subgroups of the beneficiary population. For widows, packages containing the inheritance of earnings credits--Packages A and C--would tend to benefit fewer recipients but would provide larger average increases to those receiving increases than would the approach based on two-thirds of the combined benefits. Any woman whose benefit as a survivor is less than twice as large as her benefit as a worker would gain from the combined-benefit options. Whether she would gain from the options that include inheritance of earnings credits would depend on the length of her marriage, the correspondence of her working years with those of her husband, and on the relative sizes of the actuarial reductions in her worker benefits and in her survivor benefits.

Each of the packages would provide much larger percentage increases to low-benefit widows than to high-benefit widows. Widows with current law benefits below $7,500 would receive increases averaging from 14.2 percent under Package B to 16.3 percent under Package C; those with benefits exceeding $12,500 would receive increases ranging from 1.8 percent to 2.8 percent. Packages A and C, which include the inheritance of earnings credits, would help low-benefit widows for two reasons. First, low-benefit widows are likely to have husbands with low earnings. The progressivity of the benefit formula means that adding a wife's earnings to her husband's has a larger effect if his earnings are low. Second, low-benefit widows tend to have larger actuarial reductions than high-benefit women. Women who receive survivor benefits with large reductions are more likely to gain from a worker benefit based on combined earnings. Packages B and D would benefit more low-benefit widows than high-benefit widows because a woman is more likely to have worker benefits more than half as big as her survivor benefit if her survivor benefit is small.

The results for divorced women with deceased ex-husbands show similar patterns of gains relative to current law benefit levels, but the inheritance of earnings credits would be slightly more favorable to them than providing two-thirds of the combined worker/survivor benefits. Moreover, the largest differences would be for the lowest benefit group, with the two packages containing the inheritance option--Packages A and C--increasing average benefits by 18.3 percent and 21.4 percent respectively, while the corresponding increases for Packages B and D would be 12.9 percent and 16.8 percent. Packages A and C are more attractive for divorced women because the inheritance option benefits divorced women who were married as few as three years but divorced women must have been married at least ten years to qualify for a survivor benefit. Divorced women who are ineligible for survivor benefits would be concentrated in the low-benefit category.

In addition, the lowest benefit groups would experience the largest relative benefit increase from the flat 75 percent divorced spouses' benefit as incorporated into Packages C and D. Women who were married to their deceased ex-spouses less than 10 years and women whose ex-husbands had low earnings will tend to have low benefits. If such women also have living ex-husbands, they may benefit from an increase in the spouses' benefit level, especially if the increase does not depend on the length of marriage.

Widowers would tend to be affected somewhat differently than widows under the incremental packages. Average gains for all widowers would be higher under Packages A and C--those containing the inheritance of earnings credits--than under Packages B and D, and inheritance would provide gains of over 5 percent to about 24 percent more of these recipients than would the combined-benefits approach. On the other hand, the average gain for those with increases would be about 13 percent higher with the combined-worker/survivor-benefits option.

The inheritance option provides more additional benefits than the combined-benefit option for widowers, while widows do better under the combined-benefit option. This inheritance option is relatively more attractive to men than to women because very few widowers receive survivor benefits, with their favorable treatment of actuarial adjustments, under

TABLE V-7. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER PACKAGE A (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	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain
		Widows			
Total	15,320	9,980	8.5	6,150	1,900
Below $7,500	4,730	6,680	16.1	2,640	1,640
$ 7,500 - $10,000	4,790	9,760	11.2	2,210	2,070
$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	9,100	10.4	3,280	1,640
Below $7,500	2,850	6,740	18.3	2,020	1,450
$ 7,500 - $10,000	1,950	9,560	10.1	910	1,840
$10,000 - $12,500	1,030	11,710	5.7	290	2,160
$12,500 and Over	570	14,600	2.1	60	2,540
		Other Divorced Women			
Total	2,930	6,700	8.2	1,020	1,440
Below $7,500	2,310	5,960	10.8	920	1,440
$7,500 and Over	620	9,440	2.4	100	1,380

(Continued)

TABLE V-7. (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	9,810	2.7	810	1,150
Below $7,500	1,200	6,030	5.4	380	910
$ 7,500 - $10,000	1,380	9,010	3.1	270	1,160
$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.

TABLE V-8. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER PACKAGE B (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	10,010	8.9	8,410	1,440
Below $7,500	4,730	6,570	14.2	3,100	1,230
$ 7,500 - $10,000	4,790	9,740	11.0	2,910	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	9,070	10.1	3,300	1,580
Below $7,500	2,850	6,430	12.9	1,450	1,430
$ 7,500 - $10,000	1,950	9,730	12.0	1,210	1,640
$10,000 - $12,500	1,030	11,980	8.2	490	1,850
$12,500 and Over	570	14,760	3.2	150	1,600
Other Divorced Women					
Total	2,930	6,700	8.2	1,020	1,440
Below $7,500	2,310	5,960	10.8	920	1,440
$7,500 and Over	620	9,440	2.4	100	1,380

(Continued)

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	Beneficiaries Who Would Gain At Least 5 % b/ 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

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

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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	Period 2009 - 2034	Period 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.

increase the excess to about 21 percent, 26 percent, and 31 percent, respectively. Although there is reason to be skeptical about the reliability of 75-year projections, particularly for the third 25-year segment, estimated cost increases of this magnitude would be likely to cause considerable concern about the program's funding for the middle of the next century.

UNCERTAINTY OF COST PROJECTIONS

Projections of the costs of earnings sharing proposals--and of program costs in general--are based on sets of assumptions about future economic and demographic events, such as fertility, mortality, economic growth, and labor force participation. As such, these projections are subject to error, and this uncertainty increases with the length of the projection period. Therefore, in a program such as Social Security where projections are often made with reference to a 75-year time span, all estimates--and particularly those furthest into the future--should be used with caution.

Recognizing this problem, the trustees of the Social Security trust funds present projections of trust fund operations over the next 75 years based on at least three different sets of assumptions about demographic changes and the performance of the economy. The various sets of assumptions are constructed in order to provide estimates that range from optimistic to pessimistic with regard to their impacts on the Social Security trust funds. To illustrate, under the optimistic, or Alternative I, assumptions of the 1984 Trustees' report, the average cost of the OASDI program over the next 75 years is estimated as 10.01 percent of taxable payroll. The comparable figure under the pessimistic, or Alternative III, assumptions is 17.22 percent, or about 72 percent higher than under the optimistic projections and a third higher than under the II-B assumptions. 11/

Demographic Factors

To a large extent, the ability to finance future benefits under current law depends on the growth and composition of the population. Moreover, various factors such as improvements in mortality rates and changes in disability rates have important effects on the size of the beneficiary population during the projection period. For instance, the 1984 II-B assumptions incorporate mortality improvements in 1984 equal to the average annual gain experienced during the 1968-1980 period, with the rate of improvement declining

11. Similar relationships among costs occur under the various sets of assumptions used for the 1985 Trustees' Report.

over time. If this rate of improvement is altered to be 50 percent higher than the II-B assumptions--as in the Alternative III assumptions--the 75-year actuarial balance becomes about 1.07 percent of taxable payroll in deficit rather than 0.06 in deficit. While mortality improvements would increase the size of the working age population slightly, and therefore increase revenues, the considerable increase in the number of beneficiaries would have a much more substantial effect on outlays.

On the other hand, factors such as fertility rates and labor force participation rates are important determinants of the size of the work force upon whom payroll taxes are levied. If fertility rates are assumed to be 20 percent lower than the 2.0 birth per woman rate used in the II-B assumptions, the long-range balance declines by over 1 percent of taxable payroll, from -0.06 percent to -1.15 percent.

Trends in marriage and divorce rates also are crucial, because such rates are likely to have important consequences for child bearing, labor force behavior, and beneficiary status. These factors are especially critical to estimates of program costs under alternative benefit computation procedures such as earnings sharing.

As discussed in Chapter IV, CBO has examined the sensitivity of the results to changes in two factors that may be thought to have an important impact on future beneficiaries: divorce rates and labor force participation rates of women. In one alternative scenario, participation rates are assumed to increase more rapidly and reach an ultimate level about 10 percent higher than in the II-B assumptions. In another scenario, this higher rate of participation in the labor force is combined with a 20 percent higher divorce rate.

The DYNASIM projections using the increased rates of divorce and labor force participation suggest that, overall, current law benefits would be about 0.7 percent higher than the baseline projection. Under these alternative assumptions, estimates of 2030 benefit payments under the Generic I plan are about 1.1 percent higher than for current law, in contrast to the 1.6 percent difference when the baseline assumptions are used. Thus, it appears that the higher labor force participation and divorce rates themselves would not substantially alter the relative costs of earnings sharing proposals.

Economic Factors

Assumptions about the performance of the economy also are critical to projections of Social Security outlays, income, and trust fund balances.

Economic factors that enter into these projections include growth in gross national product, in productivity, and in wage and nonwage compensation per worker. Other factors include the future rates of unemployment, price increases, and interest.

For example, if a 2.0 percent real wage growth assumption is substituted for the 1.5 percent in the II-B set of assumptions, the 75-year balance improves from -0.06 percent of taxable payroll to 0.62 percent. Alternatively, if the ultimate inflation rate is assumed to be 5 percent rather than 4 percent annually, the balance improves from -0.06 to 0.12 percent. The favorable effect of inflation on trust fund balances occurs because, assuming that real wages remain constant, price increases will be reflected in nominal wages--and, therefore, in trust fund revenues--more rapidly than in OASDI benefit payments because of the lag in indexing benefits to inflation.

One key variable for the purposes of evaluating the distribution of benefits under current law and under earnings sharing is the relative wage levels of male and female workers. Although it is generally agreed that female labor force participation rates, particularly those of married women, will continue to increase during the remainder of this century, controversy persists about the earnings gap between men and women and whether this gap will diminish over time. In part as a result of this uncertainty, the earnings gap under each of the different sets of assumptions is maintained at its current level. If this gap were to narrow and if the labor supply patterns of women continued to become more like those of men, the cost estimates for earnings sharing options--and those under current law as well--would be much different from those estimated in the HHS report.

Differences in Results of the Simulation and the Actuarial Models

Another element of uncertainty in examining the cost and beneficiary impacts of earnings sharing plans is that, although both estimation techniques use the same assumptions about aggregate economic and demographic events, the simulation and the actuarial models produce somewhat different beneficiary populations for 2030. These differences result primarily from fundamental distinctions in the models' treatments of individual beneficiaries. For example, the actuarial model used by the Social Security Administration applied divorce and remarriage rates through tables based on the ages of the two spouses, whereas the DYNASIM model uses a marriage cohort approach that also allocates divorces according to length of marriage, the relationship of the spouses' wage rates, and other factors. As a consequence, it would be quite surprising if the models produced populations with identical characteristics.

Similarly, women's work histories are constructed differently under the two models. Their labor force experience as simulated by DYNASIM results in more women having insured status as workers than does the actuarial model. DYNASIM indicates that fewer married women would be eligible only for spouses' benefits, and more would be either dually entitled or entitled only as worker beneficiaries. These differences appear to have an effect on both the estimates of current law benefit payments and on the costs of the earnings sharing plans.

COSTS OF INCREMENTAL OPTIONS

Less comprehensive changes in the Social Security programs were also discussed in the HHS report, and were described as options that might be implemented either as part of the transition to earnings sharing or as alternatives to the more far-reaching plans. These incremental options--24 in all--were presented as illustrations of program changes designed to address specific concerns with the current program. CBO did not directly evaluate all of these options, but rather attempted to determine whether combinations of the options might be successful at alleviating problems associated with the disparities between the benefits of the survivors of one- and two-earner couples and the relatively low benefits available to divorced spouses. Accordingly, this appendix will not directly evaluate the HHS cost estimates for the incremental options, but will instead discuss general questions about the costs of these proposals.

Range of Social Security Benefit Costs

The largest component of the federal costs associated with the HHS options is, of course, benefit payments under Social Security. In the long run, HHS estimates that the plans could have a negligible impact on total benefits, or could increase benefit costs by up to 10 percent, depending on the specific plan. (Estimates of the potential administrative costs were not supplied in the HHS report.) The most expensive plans in the long run tend to be those that are directed at improving the benefits for two-earner couples and their survivors, such as the inheritance of earnings credits or the modification of the current dual entitlement provisions. Those with small costs often deal with modifications of the number of years of earnings to be included in the computation of benefits or with the various qualifications for disability benefits. The costs of two options, voluntary earnings sharing and the provision of homemaker credits, could not be estimated.

Unlike the earnings sharing plans, however, the incremental options would begin to affect benefit payments shortly after enactment. For example, the option to increase benefits for those 85 and older beginning in January 1986 was estimated to increase costs by $1.2 billion in calendar year 1986, and by $8.0 billion over the 1986-1990 period. The most expensive options over the next five years were the change in dual entitlement rules--under which the offset for the spouse's or surviving spouse's benefit would be changed from $1 for every $1 of the person's own worker benefit to $1 for every $2--and the provision of child care increment years (a 2 percent benefit increase for every year in which the recipient had a child under age seven and no earnings in that year). These two options would each increase Social Security benefit costs by over $11 billion over the 1986-1990 period. Moreover, these are the costs of providing such benefit increases to only those becoming eligible after 1985. If they were to be extended to all beneficiaries, the costs would be much larger.

On the other hand, several options would have relatively small costs over the next five years. For instance, the option that would increase divorced spouses' benefits for those who had long marriages would, according to the HHS report, increase costs by less than $200 million over the period. In general, the smaller-cost items would provide additional benefits to fewer recipients, relatively small increases to these recipients, or both.

Other Federal Costs

As discussed earlier, many poorer Social Security recipients also receive benefits from other federal assistance programs such as SSI and Food Stamps. At the other end of the income spectrum, more affluent recipients are affected by the partial taxation of Social Security benefits. Thus, any increase in Social Security benefits to either low- or high-income recipients would have a smaller federal budget impact than the increase in Social Security benefits, because it also would work either to reduce other outlays or to increase income tax revenues.

For an illustration of these offsetting effects, consider the option that would raise benefits for the very old by 10 percent. Approximately 6 percent of these beneficiaries in June 1985 were concurrent recipients of Social Security and SSI benefits, with their Social Security benefits averaging $233 per month and their federal SSI payments averaging $97. A 10 percent benefit increase would result in approximately 35 percent of these persons losing their eligibility for federal SSI payments, and the average affected recipient would lose $22 per month in federal SSI payments. Therefore, federal SSI payments in calendar 1986 would fall by about $40 million. In addition, the loss of SSI eligibility would cause some current SSI recipients to lose Medicaid eligibility as well, reducing federal Medicaid costs by about $40 million. Moreover, Food Stamp benefits would be reduced by another $5 million. Thus, while Social Security benefits would rise by $1.2 billion that year, the net effect on federal spending would be close to $1.1 billion.

On the income tax side, approximately 9 percent or 0.2 million of the very old were simulated to have total incomes high enough to be affected by the taxation of benefits. Of the additional $1.2 billion in Social Security benefits paid under the option, CBO estimates that approximately $130 million in Social Security benefit payments would be received by those paying income taxes on their benefits. For those currently paying income taxes on their Social Security benefits, however, only a portion of their benefits are subject to the income tax. As a result, only about 4 percent to 5 percent of total benefits to the age 85-and-over population actually affect income tax liabilities. Assuming a 10 percent benefit increase would raise these "countable" benefits by roughly the same percentage, income tax revenues would grow by about $15 million in 1986.

Although the offsets in other portions of the federal budget would be relatively small in the example above, other options might have more significant interactions with other programs. For instance, if a flat dollar benefit increase for the very old was provided rather than the 10 percent increase--assuming the same total increase in Social Security benefits--there would be much larger SSI, Medicaid, and Food Stamp offsets and smaller income tax effects than those displayed above.

APPENDIX B

MICROSIMULATION TECHNIQUES

In order to analyze the distributional impact of changes in the Social Security system, a data file must be created to represent the U.S. population for years into the future, and that file must include all of the information necessary for the calculation of benefits. One way to construct these data files--and the method employed by both HHS and CBO--uses microsimulation models, or more specifically, the Dynamic Simulation of Income Model (DYNASIM). DYNASIM takes a recent sample of the U.S. population and generates a similar population sample for a future year by simulating for each individual important demographic and economic events, such as births, family formation, labor force participation, and earnings. This appendix presents a brief overview of DYNASIM and a discussion of the limitations of this approach.

DYNASIM: A GENERAL DESCRIPTION

DYNASIM is a microsimulation model originally designed at The Urban Institute as a tool for analyzing the impacts of policy decisions that would affect the economic and demographic choices individuals and families would face during future years. 1/ The original DYNASIM model has since been modified in a number of important aspects, and its second-generation version now has more compartmentalized structure. 2/ DYNASIM's major components are the Family and Earnings History (FEH) model and the Jobs and Benefit History (JBH) model. Output from the FEH model, including information on marital status, marital history, labor force status and history, is fed into the JBH model, and the JBH model produces a data file with Social Security coverage and benefits, private pension coverage and benefits, and other characteristics for each person in the file.

1. For more details see Guy Orcutt, Steven Caldwell, and Richard Wertheimer II, *Policy Exploration Through Microanalytic Simulation* (Washington, D.C.: The Urban Institute, 1976).

2. Jon Johnson, Richard Wertheimer II, and Sheila Zedlewski, "The Dynamic Simulation of Income Model," vols. I and II, Project Report 1434-03 (Washington, D.C.: The Urban Institute, November 1983).

DYNASIM ages its population one year at a time. Each person represented in the file is first processed through the demographic modules for the simulation of events such as divorce, marriage, birth, death, and leaving home. This is followed by the simulation of economic characteristics including labor force participation, hours and weeks worked, and earnings. The simulated characteristics of the population are adjusted to reflect either historical target figures or assumed targets for future years. 3/ 4/

Once the FEH model has produced an output file for a given year--an output file that contains longitudinal records for labor force and marital status variables--DYNASIM moves to a second stage in which the JBH model simulates job changes, Social Security and private pension plan coverage, retirement and disability income, and retirement decisions.

Currently, DYNASIM begins with the 1973 Exact Match File--a match of the Census Bureau's March 1973 Current Population Survey (CPS), Social Security earnings records, and Internal Revenue Service 1972 tax return information--as its initial input file. 5/ Demographic and labor force information was derived from the 1973 CPS data, while Social Security earnings histories before 1973 were available from the Social Security records. Some of the variables needed for the simulation, such as length of marriage, had to be imputed from information that was available on the CPS records. Approximately one-half of the records from this modified file are then selected in inverse proportion to their sample weights to produce a file in which all records have identical sample weights.

The versions of DYNASIM used by HHS in its report differ in certain ways from those used by CBO. For example, slightly different equations are used to predict which couples get divorced. A more important difference is that the disability component of the HHS version was modified to produce longer spells of disability and to increase the mortality rates for the disabled. This causes the HHS and CBO models to have different projections

3. Because the initial data file used in the simulation contains data for 1972, the model's output must be aligned with historical information up through the present in order to have an appropriate basis for simulating future events.

4. The files used in this report as well as the HHS report were generated by creating targets consistent with the Intermediate B (II-B) economic and demographic assumptions of the *1983 Annual Report* of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, and constraining the output from the FEH model to align with these targets.

5. The IRS component of the Exact Match File is not used by the DYNASIM model, and is therefore not retained as part of the initial input file.

of benefit costs for beneficiaries under age 62, although the models have similar results for elderly recipients.

LIMITATIONS OF THE APPROACH

Although microsimulation modelling can be a valuable addition to the set of analytical tools used by policy analysts, current models have several limitations. Among these are:

- Lack of consensus as to the appropriate specifications for many important behavioral relationships;
- Reliance on externally determined economic and demographic assumptions to guide the model;
- Lack of recent databases that could be used as the initial files for simulating Social Security benefits;
- Lack of program-specific information for determining eligibility; and
- Shortness of the historical period over which the behavioral relationships are estimated relative to the length of the projection period.

Behavioral Relationships

In many instances, the behavioral relationships embodied in DYNASIM are much less sophisticated than the best empirical research in the literature. This circumstance usually results from one of two problems. First, the best research in a given field usually employs databases that are not comparable with the Current Population Survey (CPS) that generally serves as the initial file for a DYNASIM run. For example, many labor supply studies of older men have used data from the National Longitudinal Surveys or the Retirement History Study, and these studies employ many more variables than are provided in the CPS. Therefore the specific equations estimated in those studies cannot be translated into a corresponding equation in DYNASIM. In addition, these analyses are often cross-sectional estimates--that is, focusing on behavior in a single period--whereas the purpose of DYNASIM is to produce realistic longitudinal--multiyear--patterns. Second, the statistical methods used in these studies are often too cumbersome or too expensive for population simulations of 60,000 cases over a 58-year projection period.

The lack of behavioral models that can track behavior over time forces users of simulation models to specify the levels and rates for many key variables such as population size and age distribution, average earnings and rate of growth in earnings, labor force participation, and incidence of disability. As a result, the accuracy of the simulation is dependent on the assumptions imposed on the model's output by the user. In this report, the exogenously determined assumptions are the II-B assumptions of the 1983 Trustees' Report--except for CBO's sensitivity analysis.

As a set, the II-B assumptions are not necessarily internally consistent. 6/ For example, the rates of real wage growth and unemployment are determined without regard to labor force growth after the turn of the century; divorce rates are assumed to remain at their 1978 levels despite the assumption of continued increases in the labor force participation rates for women; and fertility rates are expected to increase during the remainder of this century at the same time that women are increasing their paid work effort. On the other hand, use of the II-B assumptions constrained the simulated results to be as consistent as possible with the estimates produced by the SSA's Office of the Actuary. Moreover, the choice of assumptions was also constrained by the lack of alternatives that contained the economic and demographic factors necessary for Social Security projections out to the year 2030.

Economic and Demographic Assumptions

There is little consensus at the present time as to what factors determine many of the demographic and economic events required for the simulation. Empirical researchers using sophisticated methods find different relationships between variables, and few have even attempted to estimate equations that can predict trends in economic and demographic behavior.

Lack of Databases

A third limitation of the existing dynamic simulation models is the absence of recent databases with longitudinal earnings histories to use as the initial input file for the simulations, or to validate the simulation results. The 1973 Exact Match file serves as the starting point for DYNASIM simulations. A similar file was generated with the 1978 CPS, but many cases could

6. For a further discussion of this issue, see Appendix B: Report of the Panel of Consultants to the 1979 Advisory Council on Social Security, in *Social Security Financing and Benefits* (1979).

not be matched with their Social Security earnings records. Both are somewhat outdated given the rapid economic, demographic, and social changes experienced by American society in recent years.

Program-Specific Information

The validity of the simulations is also constrained by the lack both of specific details required for determining program eligibility and benefit levels--such as degree of medical impairment--and of modules to represent the behavior of the agencies administering the program. One area in which this is a major problem is in determining eligibility for Disability Insurance (DI) benefits, where much of the recent concern has focused on program administration.

Historical Period

Finally, virtually all of the behavioral relationships incorporated into DYNASIM have been estimated on a relatively short historical period, one that may not be ideal for 50-year projections. For example, the labor supply decisions of men and women are modeled on the basis of 13 years--1967 to 1979--of data from the Michigan Panel Study of Income Dynamics. This period was one of major disruptions in labor markets--relatively high unemployment rates and rapid labor force growth as a result of the aging of the baby boom population and the reentry of married women into the paid work force--and therefore such data may not be appropriate for projections of future labor market patterns. In addition, the marriage module is founded on data from the early 1970s, and the education decisions are based on even earlier data. While it is highly likely that the relative importance of factors affecting these decisions changes over time, it is difficult in practice to predict how these relationships will change. In large part, changes are incorporated into DYNASIM through the overall target rates imposed on the model by the user.

APPENDIX C

ADDITIONAL TABLES

TABLE C-1. ANNUAL BENEFITS IN THE YEAR 2030 UNDER RETROSPECTIVE GENERIC EARNINGS SHARING BY BENEFIT UNDER CURRENT LAW
(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/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Married Couples d/							
Total	12,880	16,620	-0.3	2,630	2,050	2,950	1,890
Less than $12,500	2,110	10,510	2.4	590	2,150	390	1,650
$12,500 - $15,000	2,450	13,690	-1.0	390	2,240	620	1,610
$15,000 - $17,500	2,960	16,140	-0.6	610	1,820	690	1,780
$17,500 - $20,000	2,500	18,520	-0.7	500	1,900	600	2,070
$20,000 or more	2,860	22,490	-0.2	540	2,220	640	2,260
Widows							
Total	15,320	9,150	-0.5	5,900	1,920	5,040	2,380
Less than $7,500	4,730	6,480	12.5	2,300	1,700	420	1,170
$ 7,500 - $10,000	4,790	9,360	6.6	2,260	2,030	1,220	1,490
$10,000 - $12,500	3,630	10,820	-2.9	1,070	2,200	1,750	1,980
$12,500 or more	2,160	11,730	-18.3	270	1,890	1,650	3,760
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,560	3.9	3,490	1,800	1,700	2,480
Less than $7,500	2,850	6,850	20.2	2,130	1,670	220	1,330
$ 7,500 - $10,000	1,950	9,200	6.0	980	1,930	540	1,630
$10,000 - $12,500	1,030	10,600	-4.3	310	2,190	490	2,350
$12,500 or more	570	11,250	-21.3	70	2,140	440	4,240

(Continued)

TABLE C-1. (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	Beneficiaries Who Would Lose At Least 5 % b/ Number	Average Loss
			Other Divorced Women				
Total	2,930	7,220	16.6	2,090	1,470	100	880
Less than $7,500	2,310	6,470	20.3	1,760	1,450	70	780
$7,500 or more	620[e/]	10,000	8.5	330	1,570	30	1,120
			Widowers				
Total	3,810	10,280	6.2	1,850	1,340	240	1,770
Less than $7,500	1,010	6,500	12.6	550	1,410	50	1,270
$ 7,500 - $10,000	1,180	9,410	8.2	700	1,370	90	1,740
$10,000 - $12,500	850	11,530	3.9	370	1,280	70	2,310
$12,500 or more	760	15,210	3.0	230	1,190	40	1,440
			Divorced Men				
Total	4,360	8,800	-7.9	670	1,160	2,570	1,590
Less than $7,500	1,200	5,730	0.1	350	1,150	450	870
$ 7,500 - $10,000	1,380	8,030	-8.1	220	1,150	850	1,450
$10,000 - $12,500	920	9,920	-10.9	60	1,240	650	1,860
$12,500 or more	860	13,130	-9.8	40	1,200	620	2,020

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

e. This group includes about 500,000 divorced women with benefits under current law between $7,500 and $10,000; 100,000 with benefits between $10,000 and $12,500; and 30,000 with benefits of $12,500 or more. Estimates of the effects of the plan on these groups are not provided because of small sample sizes.

TABLE C-2. ANNUAL BENEFITS IN THE YEAR 2030 UNDER RETROSPECTIVE MODIFIED EARNINGS SHARING BY BENEFIT UNDER CURRENT LAW
(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	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
Married Couples d/							
Total	12,880	16,990	2.0	3,890	2,000	2,190	1,640
Less than $12,500	2,110	11,460	11.7	1,330	2,040	150	1,430
$12,500 - $15,000	2,450	14,270	3.2	760	2,010	330	1,190
$15,000 - $17,500	2,960	16,360	0.8	720	1,790	540	1,460
$17,500 - $20,000	2,500	18,670	0.1	520	1,920	540	1,710
$20,000 or more	2,860	22,580	0.2	560	2,250	620	2,010
Widows							
Total	15,320	9,180	-0.1	6,040	1,930	4,990	2,370
Less than $7,500	4,730	6,550	13.8	2,430	1,720	380	1,130
$ 7,500 - $10,000	4,790	9,380	6.9	2,260	2,030	1,210	1,440
$10,000 - $12,500	3,630	10,820	-2.9	1,070	2,200	1,750	1,980
$12,500 or more	2,160	11,730	-18.3	270	1,890	1,650	3,760
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,630	4.7	3,590	1,850	1,680	2,470
Less than $7,500	2,850	6,980	22.6	2,210	1,760	200	1,240
$ 7,500 - $10,000	1,950	9,220	6.2	1,000	1,920	540	1,590
$10,000 - $12,500	1,030	10,600	-4.2	310	2,190	490	2,350
$12,500 or more	570	11,250	-21.3	70	2,140	440	4,240

(Continued)

TABLE C-2. (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	Beneficiaries Who Would Lose At Least 5 % b/ Number	Average Loss
			Other Divorced Women				
Total	2,930	7,450	20.3	2,350	1,590	70	930
Less than $7,500	2,310	6,750	25.5	2,020	1,590	40	840
$7,500 or more	620e/	10,030	8.9	340	1,600	30	1,030
			Widowers				
Total	3,810	10,290	6.3	1,860	1,350	240	1,690
Less than $7,500	1,010	6,520	13.0	560	1,410	40	960
$ 7,500 - $10,000	1,180	9,420	8.3	700	1,380	90	1,740
$10,000 - $12,500	850	11,540	4.0	370	1,280	70	2,180
$12,500 or more	760	15,210	3.0	230	1,190	40	1,440
			Divorced Men				
Total	4,360	8,850	-7.3	760	1,140	2,450	1,600
Less than $7,500	1,200	5,860	2.5	440	1,120	370	830
$ 7,500 - $10,000	1,380	8,080	-7.5	220	1,140	810	1,430
$10,000 - $12,500	920	9,930	-10.8	60	1,240	640	1,860
$12,500 or more	860	13,130	-9.8	40	1,200	620	2,020

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

e. This group includes about 500,000 divorced women with benefits under current law between $7,500 and $10,000; 100,000 with benefits between $10,000 and $12,500; and 30,000 with benefits of $12,500 or more. Estimates of the effects of the plan on these groups are not provided because of small sample sizes.

TABLE C-3. ANNUAL BENEFITS IN THE YEAR 2030 UNDER GENERIC EARNINGS SHARING I BY BENEFIT UNDER CURRENT LAW (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/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Married Couples d/							
Total	12,880	16,590	-0.5	1,980	1,870	2,340	1,870
Less than $12,500	2,110	10,340	0.7	380	1,940	370	1,440
$12,500 - $15,000	2,450	13,630	-1.5	250	2,120	470	1,750
$15,000 - $17,500	2,960	16,150	-0.5	490	1,630	530	1,750
$17,500 - $20,000	2,500	18,520	-0.7	390	1,780	450	2,190
$20,000 or more	2,860	22,510	-0.1	470	2,010	530	2,130
Widows							
Total	15,320	9,230	0.4	2,930	1,730	1,680	2,720
Less than $7,500	4,730	5,990	4.1	980	1,400	220	1,310
$ 7,500 - $10,000	4,790	8,980	2.3	1,110	1,880	540	2,160
$10,000 - $12,500	3,630	11,150	0.1	660	1,990	490	2,750
$12,500 or more	2,160	13,690	-4.7	170	1,750	430	4,110
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,490	3.0	1,990	1,420	510	2,610
Less than $7,500	2,850	6,210	9.0	1,270	1,210	100	1,100
$ 7,500 - $10,000	1,950	9,020	3.8	510	1,670	150	1,530
$10,000 - $12,500	1,030	11,070	-0.1	160	2,130	120	2,830
$12,500 or more	570	13,360	-6.6	50	1,710	130	4,730

(Continued)

TABLE C-3. (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	Beneficiaries Who Would Lose At Least 5 % b/ Number	Average Loss
			Other Divorced Women				
Total	2,930	6,920	11.8	1,760	1,240	120	660
Less than $7,500	2,310	6,140	14.1	1,490	1,190	80	580
$7,500 or more	620e/	9,840	6.8	270	1,490	30	870
			Widowers				
Total	3,810	10,140	4.8	1,430	1,180	130	1,590
Less than $7,500	1,010	6,200	7.4	440	1,040	40	1,240
$ 7,500 - $10,000	1,180	9,290	6.8	540	1,260	30	1,700
$10,000 - $12,500	850	11,480	3.4	280	1,220	50	2,000
$12,500 or more	760	15,160	2.7	160	1,210	20	1,170
			Divorced Men				
Total	4,360	8,960	-6.3	490	1,000	2,280	1,340
Less than $7,500	1,200	5,720	-0.1	250	990	370	700
$ 7,500 - $10,000	1,380	8,190	-6.3	170	890	740	1,210
$10,000 - $12,500	920	10,220	-8.2	40	1,410	580	1,540
$12,500 or more	860	13,380	-8.0	30	1,150	590	1,720

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

e. This group includes about 500,000 divorced women with benefits under current law between $7,500 and $10,000; 100,000 with benefits between $10,000 and $12,500; and 30,000 with benefits of $12,500 or more. Estimates of the effects of the plan on these groups are not provided because of small sample sizes.

TABLE C-4. ANNUAL BENEFITS IN THE YEAR 2030 UNDER MODIFIED EARNINGS SHARING I BY BENEFIT UNDER CURRENT LAW (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	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
			Married Couples d/				
Total	12,880	16,960	1.8	3,390	1,810	1,640	1,550
Less than $12,500	2,110	11,230	9.4	1,200	1,810	170	1,010
$12,500 - $15,000	2,450	14,220	2.8	660	1,800	220	1,200
$15,000 - $17,500	2,960	16,400	1.0	610	1,650	370	1,440
$17,500 - $20,000	2,500	18,700	0.3	430	1,800	380	1,660
$20,000 or more	2,860	22,610	0.3	490	2,040	490	1,900
			Widows				
Total	15,320	9,270	0.8	3,220	1,710	1,650	2,700
Less than $7,500	4,730	6,090	5.8	1,270	1,400	180	1,290
$ 7,500 - $10,000	4,790	9,000	2.5	1,120	1,890	540	2,030
$10,000 - $12,500	3,630	11,150	0.1	660	1,990	490	2,720
$12,500 or more	2,160	13,690	-4.7	170	1,750	430	4,110
			Divorced Women with Deceased Ex-Husbands				
Total	6,400	8,600	4.4	2,380	1,490	510	2,530
Less than $7,500	2,850	6,460	13.4	1,630	1,370	90	930
$ 7,500 - $10,000	1,950	9,030	4.0	530	1,650	160	1,400
$10,000 - $12,500	1,030	11,070	-0.1	160	2,130	120	2,830
$12,500 or more	570	13,360	-6.6	50	1,710	130	4,730

(Continued)

TABLE C-4. (Continued)

Benefits Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Other Divorced Women							
Total	2,930	7,230	16.7	2,160	1,420	90	650
Less than $7,500	2,310	6,510	21.1	1,880	1,400	50	510
$7,500 or more	620 e/	9,880	7.3	290	1,510	40	850
Widowers							
Total	3,810	10,160	4.9	1,430	1,190	130	1,450
Less than $7,500	1,010	6,230	8.0	450	1,060	30	940
$ 7,500 - $10,000	1,180	9,290	6.9	540	1,280	30	1,700
$10,000 - $12,500	850	11,490	3.5	280	1,220	50	1,780
$12,500 or more	760	15,160	2.7	160	1,210	20	1,170
Divorced Men							
Total	4,360	9,000	-5.8	590	990	2,160	1,360
Less than $7,500	1,200	5,840	2.0	340	980	290	670
$ 7,500 - $10,000	1,380	8,220	-5.9	180	890	710	1,200
$10,000 - $12,500	920	10,220	-8.2	40	1,410	570	1,540
$12,500 or more	860	13,380	-8.0	30	1,150	590	1,720

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.
b. The average gains (losses) are for the beneficiaries whose 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.
d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.
e. This group includes about 500,000 divorced women with benefits under current law between $7,500 and $10,000; 100,000 with benefits between $10,000 and $12,500; and 30,000 with benefits of $12,500 or more. Estimates of the effects of the plan on these groups are not provided because of small sample sizes.

TABLE C-5. ANNUAL BENEFITS IN THE YEAR 2030 UNDER MODIFIED EARNINGS SHARING II BY BENEFIT UNDER CURRENT LAW (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	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
			Married Couples d/				
Total	12,880	16,900	1.4	3,350	1,810	1,900	1,720
Less than $12,500	2,110	11,180	8.9	1,190	1,810	220	1,240
$12,500 - $15,000	2,450	14,180	2.5	650	1,790	260	1,270
$15,000 - $17,500	2,960	16,340	0.7	600	1,650	430	1,590
$17,500 - $20,000	2,500	18,670	0.1	420	1,790	410	1,680
$20,000 or more	2,860	22,480	-0.2	480	2,050	580	2,220
			Widows				
Total	15,320	8,140	-11.5	3,220	1,710	7,960	2,720
Less than $7,500	4,730	5,770	0.3	1,270	1,400	1,180	1,440
$ 7,500 - $10,000	4,790	8,010	-8.7	1,120	1,890	2,580	2,240
$10,000 - $12,500	3,630	9,700	-12.9	660	1,990	2,410	2,700
$12,500 or more	2,160	10,950	-23.8	170	1,750	1,780	4,310
			Divorced Women with Deceased Ex-Husbands				
Total	6,400	7,700	-6.5	2,380	1,490	2,440	2,860
Less than $7,500	2,850	6,290	10.4	1,630	1,370	420	1,330
$ 7,500 - $10,000	1,950	8,070	-7.1	530	1,650	900	2,310
$10,000 - $12,500	1,030	9,450	-14.7	160	2,130	680	2,980
$12,500 or more	570	10,350	-27.6	50	1,710	440	5,250

(Continued)

TABLE C-5. (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	Beneficiaries Who Would Lose At Least 5 % b/ Number	Average Loss
			Other Divorced Women				
Total	2,930	7,210	16.4	2,160	1,420	150	870
Less than $7,500	2,310	6,490	20.7	1,880	1,400	100	760
$7,500 or more	620[e/]	9,850	7.0	290	1,510	50	1,120
			Widowers				
Total	3,810	10,130	4.7	1,430	1,190	180	1,480
Less than $7,500	1,010	6,220	7.9	450	1,060	40	870
$ 7,500 - $10,000	1,180	9,280	6.6	540	1,280	50	1,320
$10,000 - $12,500	850	11,440	3.1	280	1,220	60	2,000
$12,500 or more	760	15,150	2.6	160	1,210	20	1,560
			Divorced Men				
Total	4,360	8,980	-6.0	590	990	2,220	1,370
Less than $7,500	1,200	5,780	1.0	340	980	340	780
$ 7,500 - $10,000	1,380	8,200	-6.1	180	890	720	1,220
$10,000 - $12,500	920	10,220	-8.2	40	1,410	570	1,540
$12,500 or more	860	13,380	-8.0	30	1,150	590	1,720

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

e. This group includes about 500,000 divorced women with benefits under current law between $7,500 and $10,000; 100,000 with benefits between $10,000 and $12,500; and 30,000 with benefits of $12,500 or more. Estimates of the effects of the plan on these groups are not provided because of small sample sizes.

TABLE C-6. ANNUAL BENEFITS IN THE YEAR 2030 UNDER MODIFIED EARNINGS SHARING III BY BENEFIT UNDER CURRENT LAW (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/		Beneficiaries Who Would Lose At Least 5% b/	
				Number	Average Gain	Number	Average Loss
			Married Couples d/				
Total	12,880	17,070	2.5	3,880	1,760	1,320	1,580
Less than $12,500	2,110	11,420	11.2	1,340	1,820	70	1,240
$12,500 - $15,000	2,450	14,440	4.4	910	1,630	120	1,110
$15,000 - $17,500	2,960	16,520	1.8	700	1,620	280	1,410
$17,500 - $20,000	2,500	18,780	0.7	440	1,770	340	1,570
$20,000 or more	2,860	22,600	0.3	480	2,060	510	1,830
			Widows				
Total	15,320	8,990	-2.2	3,250	1,710	5,300	1,500
Less than $7,500	4,730	6,090	5.8	1,280	1,410	220	530
$ 7,500 - $10,000	4,790	8,910	1.5	1,130	1,890	1,420	840
$10,000 - $12,500	3,630	10,760	-3.4	660	1,990	1,950	1,290
$12,500 or more	2,160	12,560	-12.5	170	1,750	1,710	2,420
			Divorced Women with Deceased Ex-Husbands				
Total	6,400	8,400	2.0	2,500	1,510	1,720	1,490
Less than $7,500	2,850	6,490	13.9	1,730	1,400	200	750
$ 7,500 - $10,000	1,950	8,720	0.4	560	1,640	660	1,190
$10,000 - $12,500	1,030	10,640	-3.9	160	2,130	490	1,490
$12,500 or more	570	12,840	-10.2	50	1,710	360	2,440

(Continued)

TABLE C-6. (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	Beneficiaries Who Would Lose At Least 5 % b/ Number	Average Loss
			Other Divorced Women				
Total	2,930	7,300	17.9	2,260	1,450	70	690
Less than $7,500	2,310	6,610	22.8	1,970	1,440	20	380
$7,500 or more	620e/	9,890	7.4	290	1,520	40	880
			Widowers				
Total	3,810	10,160	4.9	1,430	1,190	130	1,250
Less than $7,500	1,010	6,250	8.3	450	1,060	10	610
$ 7,500 - $10,000	1,180	9,290	6.8	540	1,280	40	1,160
$10,000 - $12,500	850	11,490	3.6	280	1,220	50	1,450
$12,500 or more	760	15,150	2.6	160	1,210	20	1,330
			Divorced Men				
Total	4,360	9,070	-5.1	590	990	2,060	1,270
Less than $7,500	1,200	5,880	2.7	350	980	230	600
$ 7,500 - $10,000	1,380	8,300	-5.0	180	890	680	1,080
$10,000 - $12,500	920	10,330	-7.2	40	1,410	560	1,390
$12,500 or more	860	13,430	-7.7	30	1,150	590	1,650

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose 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.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

e. This group includes about 500,000 divorced women with benefits under current law between $7,500 and $10,000; 100,000 with benefits between $10,000 and $12,500; and 30,000 with benefits of $12,500 or more. Estimates of the effects of the plan on these groups are not provided because of small sample sizes.

TABLE C-7. ANNUAL BENEFITS IN THE YEAR 2030 UNDER GENERIC EARNINGS SHARING IV BY BENEFIT UNDER CURRENT LAW (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Benefit Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain b/	
				Number	Average Gain
Married Couples d/					
Total	12,880	17,060	2.4	1,980	1,870
Less than $12,500	2,110	10,650	3.8	380	1,940
$12,500 - $15,000	2,450	14,100	1.9	250	2,120
$15,000 - $17,500	2,960	16,600	2.3	490	1,630
$17,500 - $20,000	2,500	19,060	2.2	390	1,780
$20,000 or more	2,860	23,050	2.3	470	2,010
Widows					
Total	15,320	9,540	3.7	2,930	1,730
Below $7,500	4,730	6,050	5.2	980	1,400
$ 7,500 - $10,000	4,790	9,220	5.1	1,110	1,880
$10,000 - $12,500	3,630	11,520	3.4	660	1,990
$12,500 or more	2,160	14,510	1.0	170	1,750
Divorced Women with Deceased Ex-Husbands					
Total	6,400	8,700	5.5	1,990	1,420
Below $7,500	2,850	6,250	9.7	1,270	1,210
$ 7,500 - $10,000	1,950	9,150	5.3	510	1,670
$10,000 - $12,500	1,030	11,410	3.1	160	2,130
$12,500 or more	570	14,470	1.1	50	1,710

(Continued)

TABLE C-7. (Continued)

Benefit Under Current Law	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain b/ Number	Average Gain
Other Divorced Women					
Total	2,930	6,960	12.4	1,760	1,240
Less than $7,500	2,310	6,160	14.6	1,490	1,190
$7,500 or more	620e/	9,910	7.6	270	1,490
Widowers					
Total	3,810	10,200	5.4	1,430	1,180
Less than $7,500	1,010	6,240	8.3	440	1,040
$ 7,500 - $10,000	1,180	9,340	7.3	540	1,260
$10,000 - $12,500	850	11,600	4.5	280	1,220
$12,500 or more	760	15,200	2.9	160	1,210
Divorced Men					
Total	4,360	9,690	1.4	490	1,000
Less than $7,500	1,200	5,950	4.0	250	990
$ 7,500 - $10,000	1,380	8,870	1.5	170	890
$10,000 - $12,500	920	11,220	0.8	40	1,410
$12,500 or more	860	14,610	0.4	30	1,150

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.
b. Beneficiaries are considered to have gained if their benefits under the plan would be at least 5 percent higher than their benefits under current law in the simulation year.
c. Relative to benefit under current law.
d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.
e. This group includes about 500,000 divorced women with benefits under current law between $7,500 and $10,000; 100,000 with benefits between $10,000 and $12,500; and 30,000 with benefits of $12,500 or more. Estimates of the effects of the plan on these groups are not provided because of small sample sizes.

APPENDIX D

DESCRIPTION OF HHS INCREMENTAL OPTIONS

The Department of Health and Human Services report discusses a total of 24 incremental options, designed to improve protection for:

- Widows and widowers;
- Working women;
- Divorced women; and
- Homemakers 1/

WIDOWS AND WIDOWERS

The largest number of the incremental options assessed by HHS were directed at either increasing benefits for widowed beneficiaries or extending eligibility for certain widowed persons not now eligible for benefits. Some of these options would affect significant numbers of beneficiaries while others would focus on relatively small groups.

Option 1

The first option evaluated by HHS would allow surviving spouses--and divorced surviving spouses--to inherit the earnings credits of their deceased spouses for the years in which they were married. These earnings would be combined with the surviving spouses' own earnings--subject to the limitation that total earnings could not exceed the maximum taxable wage in any year--and a benefit based on these combined earnings would be computed. A surviving spouse would be eligible for the higher of the new benefit or the current law benefit.

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1. More detailed description of these options may be found in Chapter VII of the HHS report.

Option 2

A variant of the first option would be to allow surviving spouses--and divorced surviving spouses--to combine their own earnings records with the entire earnings records of their spouses or former spouses to compute new benefits. For divorced surviving spouses, this option would permit them to use the earnings records of any of their former spouses to whom they were married at least 10 years. Thus, as under current law, more than one spouse could receive benefits based on the same set of earnings.

Option 3

An alternative to the inheritance of earnings approach is to base benefits to surviving spouses on two-thirds of the sum of the deceased spouses' benefits and the surviving spouses' benefits. Thus, the surviving member of a two-earner couple could receive higher benefits than under current law, while survivors of one-earner couples would continue to get the same amount as now.

Option 4

An option designed to help younger widows without minor children is to provide an "adjustment benefit" to a worker's surviving spouse age 55-59. The benefit would equal 71.5 percent of the deceased worker's basic benefit and would be payable for up to six months after the worker's death. This benefit is designed to provide income for a limited period after a worker's death to a widow or widower who might otherwise have no source of income. After the six-month period, the surviving spouse is expected to have made the economic transition from married to widowed status.

Option 5

One relatively simple way to increase benefits for certain women is to eliminate any actuarial reductions in benefits affecting disabled widows regardless of age. That is, the benefits would equal 100 percent of the deceased workers' basic benefits. Moreover, disabled widows under age 50 would become eligible for benefits for the first time.

Option 6

One version of this option would be to liberalize the eligibility requirements for disabled surviving spouses' benefits by extending the period after a worker dies during which the surviving spouse is eligible for disabled widow(er)'s benefits. The current seven-year period would be increased by three months for every quarter of coverage earned by the surviving spouse after the worker's death.

Option 7

Eligibility for disabled widow(er)'s benefits would be extended to 10 years after a worker's death, instead of the current 7-year period.

Option 8

Another option for increasing the benefits of surviving spouses who are disabled would be to use the same definition of disability as for disabled workers. Under current law, applicants for disabled worker benefits are evaluated on vocational factors, age, and education as well as medical factors, whereas applicants for disabled widow(er)s' benefits may qualify on medical criteria only. This option would eliminate that distinction.

Option 9

Under current law, a worker's own delayed retirement credits are not allowed to affect the total benefits for which the worker might be eligible under the program's dual entitlement provisions. This proposal would allow the dollar amount of the worker's own delayed retirement credits to be added to the total benefit to be received as a surviving spouse.

Option 10

An option directed toward increasing the benefits of all very old beneficiaries including widows and widowers would be to raise benefits by 10 percent for all those age 85 and over.

WORKING WOMEN

The current treatment of two-earner couples and the surviving spouses of such couples is a major factor behind the interest in earnings sharing, and eight HHS incremental options address that concern to a certain degree.

Two of these options alter the interaction between the worker's benefit and the spouse's or survivor's benefit, and the other six modify the calculation of the worker's benefit for years spent caring for children.

Option 11

The first option for working women is one that would change the current offset between a worker's benefits and those the worker might be eligible for as a spouse. This option would change the current $1-for-$1 offset to a $1-for-$2 offset. That is, for every two dollars of a person's own retired worker benefit, the spouse's or survivor's benefit would be reduced by one dollar.

Option 12

This option would pay a working spouse's benefit to each member of a two-earner couple, and the benefit would be 25 percent of the lesser of the worker's benefit or the spouse's or surviving spouse's benefit. For example, if a person was eligible for a worker's benefit of $400 and a spouse's benefit of $200, then he or she would receive $450 per month--$400 plus 25 percent of $200--rather than $400 as under current law.

Option 13

Another method that could be used to increase benefits for some workers would be to allow a worker to exclude up to 10 years from the regular number of years used in computing benefits. The child care dropout years in this option would be used after the regular dropout years, but could not increase the total dropout years to more than 10. This option is relatively more advantageous to disabled workers than retired workers, because those becoming disabled before age 47 typically have fewer than five dropout years whereas currently retired workers would have five dropout years. Under this option, each could have as many as 10 excluded years of earnings.

Option 14

This option is similar to Option 13 except that the child care dropout years would be in addition to the dropout years allowed under current law. Thus, for workers turning age 62 after 1990, the number of years of earnings included in the benefit computations would range from 25 years to 35 years depending upon the number of child care dropout years.

Option 15

Under this option, the number of child care years--years with no earnings and with a child under age seven--would be used to increase the worker's benefit directly. Specifically, each child care year up to 10 years would increase the worker's benefit by 2 percent, but the maximum benefit under this calculation could not exceed that for which a maximum earner of the same age and benefit type would be eligible.

Option 16

Another alternative would be to use child care credits for the purpose of calculating the special minimum benefit, a benefit specifically designed to provide additional benefits to long-term, low-wage workers. Under this option, the number of years that could be used to calculate the special minimum benefit would be increased from 30 to 35, and up to 10 years of child care could be used as years meeting the criteria of coverage for the special minimum. A year of child care would be defined as any year in which the worker had a child under age seven living with him or her and in which total earnings were below the amount needed for a year of coverage under the special minimum.

Option 17

A more generous version of Option 16 would be to take the special minimum benefit as modified under Option 16 and replace the price-indexing of the special minimum benefit with wage-indexing.

Option 18

The last of the options designed to address the treatment of working women is to use child care years to relax the insured status requirements for Disability Insurance benefits. This option would allow child care years not to be considered in the determination of whether a person meets the recency of work requirement--generally, a person has to have worked in 20 of the last 40 calendar quarters--for DI benefits. That is, if a person had a child under age seven living with him or her and had no earnings during the year, this year would not be included as one of the 10 years covered by the recency-of-work requirement.

DIVORCED WOMEN

The increase in divorce rates over the past quarter century has contributed to a growing concern about the economic status of divorced women, particularly the elderly and disabled among them. HHS analyzed four options targeted at improving benefits for divorced spouses.

Option 19

This option would raise benefits for many divorced spouses by increasing the divorced spouse's benefit by one percentage point for each year the marriage had lasted beyond 10 years and up to 35 years. Thus, a person divorced after 10 years of marriage would be eligible for the same 50 percent of the PIA of the former spouse as under current law, but one married 35 years or more would be eligible for a benefit equal to 75 percent of the former spouse's PIA.

Option 20

One method to expand eligibility for divorced spouses' and divorced surviving spouses' benefits would be to reduce the duration-of-marriage requirement from the current 10-year period to 5 years.

Option 21

An alternative that would increase a divorced person's disabled worker or retired worker benefit would be to increase the number of dropout years to be used in computing benefits. Under this option, one additional dropout year--up to a maximum of 5--would be provided for each year of a marriage that lasted at least 10 years and ended in divorce, when the person had no earnings. No benefits payable as a result of this provision could be received until at least two years had passed since the final divorce decree. In addition, such benefits would only be payable to unmarried people.

Option 22

The final HHS option for improving benefits to divorced women is to allow voluntary earnings sharing at divorce. Under this alternative, one member of the divorcing couple would have to request that the couple's total earnings be split equally between the spouses on an annual basis. When one of the spouses died, the surviving ex-spouse would inherit the deceased spouse's earnings credits for the period of their marriage.

HOMEMAKERS

Homemakers are the final group for whom HHS presented options for benefit increases. One option is designed to replace the current system of spouses' and surviving spouses' benefits with homemaker credits, while the other would provide benefits to disabled homemakers.

Option 23

The first option would establish a system whereby imputed dollar values would be determined for homemaker services, and such dollar amounts would be placed into a person's earnings record in the same way the regular covered earnings are entered. The existing auxiliary benefits, such as those for spouses and surviving spouses, would be eliminated. A more restrictive version of this option would be to provide child care credits while retaining all current law benefits. The HHS report did not contain specific details on how the imputation for homemaker services would be determined.

Option 24

The final incremental option in the HHS report would provide benefits to disabled spouses of retired or disabled workers. The benefits would be restricted to spouses at least 50 years of age, and would be set at 37.5 percent of the retired or disabled worker's PIA. In addition, Medicare benefits would be available beginning 24 months after the first month of eligibility for cash benefits.