

Report of the
Consultant Panel on Social Security
to the
Congressional Research Service

Prepared for the Use of the
Committee on Finance
of the
U.S. Senate
and the
Committee on Ways and Means
of the
U.S. House of Representatives



AUGUST 1976

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1976

70-577 0

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

HERMAN E. TALMADGE, Georgia	CARL T. CURTIS, Nebraska
VANCE HARTKE, Indiana	PAUL J. FANNIN, Arizona
ABRAHAM RIBICOFF, Connecticut	CLIFFORD P. HANSEN, Wyoming
HARRY F. BYRD, JR., Virginia	ROBERT DOLE, Kansas
GAYLORD NELSON, Wisconsin	BOB PACKWOOD, Oregon
WALTER F. MONDALE, Minnesota	WILLIAM V. ROTH, JR., Delaware
MIKE GRAVEL, Alaska	BILL BROCK, Tennessee
LLOYD BENTSEN, Texas	
WILLIAM D. HATHAWAY, Maine	
FLOYD K. HASKELL, Colorado	

MICHAEL STERN, *Staff Director*

DONALD V. MOOREHEAD, *Chief Minority Counsel*

COMMITTEE ON WAYS AND MEANS

AL ULLMAN, Oregon, *Chairman*

WILBUR D. MILLS, Arkansas	HERMAN T. SCHNEEBELI, Pennsylvania
JAMES A. BURKE, Massachusetts	BARBER B. CONABLE, JR., New York
DAN ROSTENKOWSKI, Illinois	JOHN J. DUNCAN, Tennessee
PHIL M. LANDRUM, Georgia	DONALD D. CLANCY, Ohio
CHARLES A. VANIK, Ohio	BILL ARCHER, Texas
OMAR BURLESON, Texas	GUY VANDER JAGT, Michigan
JAMES C. CORMAN, California	WILLIAM A. STEIGER, Wisconsin
WILLIAM J. GREEN, Pennsylvania	PHILIP M. CRANE, Illinois
SAM GIBBONS, Florida	BILL FRENZEL, Minnesota
JOE D. WAGGONNER, JR., Louisiana	JAMES G. MARTIN, North Carolina
JOSEPH E. KARTH, Minnesota	L. A. (SKIP) BAFALIS, Florida
OTIS G. PIKE, New York	WILLIAM M. KETCHUM, California
RICHARD F. VANDER VEEN, Michigan	
J. J. PICKLE, Texas	
HENRY HELSTOSKI, New Jersey	
CHARLES B. RANGEL, New York	
WILLIAM R. COTTER, Connecticut	
FORTNEY H. (PETE) STARK, California	
JAMES R. JONES, Oklahoma	
ANDY JACOBS, JR., Indiana	
ABNER J. MIVKA, Illinois	
MARTHA KEYS, Kansas	
JOSEPH L. FISHER, Virginia	
HAROLD FORD, Tennessee	

JOHN M. MARTIN, Jr., *Chief Counsel*

J. P. BAKER, *Assistant Chief Counsel*

JOHN K. MEAGHER, *Minority Counsel*

Letter of Submittal

CAMBRIDGE, MASS., *April 15, 1976.*

Mr. NORMAN BECKMAN, *Acting Director,*
United States Congressional
Research Service,
Washington, D. C.

DEAR MR. BECKMAN: The Consultant Panel on Social Security appointed by you in April, 1975, is honored to submit our report for transmission to the U.S. Senate Committee on Finance and U.S. House Committee on Ways and Means.

The members of this Panel are unanimous in the findings and recommendations therein. We believe that we have given sufficient study to the essential questions so we are confident that our observations justify attention and action by the U.S. Congress.

Respectfully yours,

WILLIAM HSIAO, *Chairman.*

Letter of Transmittal

THE LIBRARY OF CONGRESS,
CONGRESSIONAL RESEARCH SERVICE,
Washington, D. C., April 22, 1976.

Hon. RUSSELL B. LONG,
U. S. Senate,
Washington, D. C.

DEAR MR. CHAIRMAN: With this letter I am enclosing a copy of a study, "Report of the Consultant Panel on Social Security", which was prepared at your request by a panel of consultants under contract to the Congressional Research Service.

In response to your request of last February for a study of various ways in which the social security benefit structure might be revised and of the effects of such revision on beneficiaries and program costs, the Congressional Research Service engaged the services of William C. L. Hsiao, Ph.D., F.S.A., as chairman of a team of actuaries and economists. Under the terms of the Service's contract with Dr. Hsiao, he was responsible for "organizing a group of consultants including actuaries and an economist to develop and analyze various alternatives formulae for the calculation of future benefit amounts under an actuarially sound" social security program. The other members of the group were Peter A. Diamond, Ph.D., James C. Hickman, Ph.D., F.S.A., and Ernest J. Moorhead, F.S.A.

In keeping with your desire that the staff of the two Committees be kept informed of the activities of the consultant group, several meetings were held among the consultant group, Committee staff, and CRS staff. At these meetings the development, structure, and content of the report were discussed. As suggested in these subsequent meetings and in order to enhance the usefulness of the report as a possible focus for policy deliberations, it is presented in terms of alternatives and a specific set of recommendations by the panel of consultants. However, the use of this recommendation format should not be construed as suggesting support for the course of action recommended by the panel by either the Committees, Committee staff, or the Congressional Research Service. As you know, the Congressional Research Service neither makes nor advocates policy recommendations.

We are happy that we could be of assistance to the committees in this phase of the review of the Social Security program. As you know, the staff of the Service is available to provide whatever additional assistance you may desire in your search for solutions to the many complex problems that now confront the Social Security program.

Sincerely yours,

NORMAN BECKMAN, *Acting Director.*

Staff note: The text of the report as printed in this document contains some modifications made by the consultant group subsequent to the date the report was sent to the Committees by the Congressional Research Service. These changes were made to take into account information in the 1976 Report to the Congress of the Board of Trustees of the Social Security Trust Funds. This report was not submitted by the Trustees until May 1976.

CONTENTS

<i>Chapter</i>		<i>Page</i>
	Letter of Submittal	iii
	Letter of Transmittal	iv
	Acknowledgements	vi
1	Summary and Recommendations	1
2	Introduction	10
3	Benefit Structure	17
4	Financing	27
5	Family Benefits	33
6	Earnings Histories	41
7	Other Issues	56
<i>Appendix</i>		
A.	Statistical Analysis of Earnings Histories	62
B.	A Model of Lifetime Earnings Patterns	81

Acknowledgements

The Panel expresses its sincere appreciation to the Social Security Administration whose full cooperation and assistance made this study possible and to many individuals who have assisted our work through these months of study and report preparation. It is impossible to name everybody whose help and criticism have thrown light upon the questions we have been considering. Perhaps without slight to the others we may be permitted to direct special gratitude to the following:

Frank L. Griffin, Jr., F.S.A., retired actuary, Gardnerville, Nev., who was a panel member during the first months of this study and who continued to take close and helpful interest in the deliberations.

Thomas Staples, Special Assistant to the Assistant Commissioner for Research and Statistics, Social Security Administration, who coordinated the tasks of furnishing large amounts of information and calculation that we requested.

Aaron Prero, Herman Grundmann, Barry Bye, Frederick Scheuren, H. Lock Oh, John Spencer and Virginia Reno of the Office of Research and Statistics, Social Security Administration, who completed the statistical analysis and promptly provided the large amounts of data to us.

A. Haeworth Robertson, F.S.A., Chief Actuary; Francisco Bayo, A.S.A., Deputy Chief Actuary; William Ritchie, Steven F. McKay, and other members of the staff of the Office of the Actuary, Social Security Administration, who consulted with us and furnished essential calculations and data.

Mary E. Ross and Letitia D. Passig of the Office of Program Evaluation and Planning, Social Security Administration, who educated us on the administrative complexities of the program and gave us helpful comments.

Robert J. Myers, F.S.A.; C. L. Trowbridge, F.S.A.; and Howard Young, F.S.A., who freely gave us the benefit of their knowledge and experience in this field.

Alicia Munnell, who discussed complex questions with us and permitted us to make extensive use of her to-be-published manuscript, *The Future of Social Security*.

Richard Anderson, Yves Balcer, Roger Gordon, and Jerry Hausman of Massachusetts Institute of Technology, who participated with Peter A. Diamond in the simulation project and contributed in other ways also.

Thomas McInteer, Wake Forest University, who developed and employed a computer program to illustrate indexed benefit formulas.

Carol Weisberg, who greatly eased the pain of preparing this report. Her always cheerful cooperation in this enterprise and her secretarial skills enabled us to complete the project on schedule.

William Kelley and Fred Arner, professional staff members of the U.S. House Committee on Ways and Means; Michael Stern, staff director, and Joseph Humphreys, professional staff member, of the U.S. Senate Committee on Finance; Frank Crowley of the U.S. Congressional Research Service for consultations and helpful interest in this study.