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**HOUSE SUBCOMMITTEE ON SOCIAL SECURITY  
HEARING ON IMPROVING SOCIAL SECURITY WORK INCENTIVES**

On February 15<sup>th</sup> the Social Security Subcommittee of the Committee on Ways and Means held a hearing on improving Social Security Work Incentives. This hearing focused on work disincentives in Social Security programs – paying particular attention to the current Social Security earnings penalty.

Rachel Emmons attended the hearing and the following is a summary of the proceedings.

All twelve members of the Subcommittee were present at different times during the hearing. Those members were: Clay Shaw (R-FL); Sam Johnson (R-TX); Michael Collins (R-GA); Rob Portman (R-OH); J.D. Hayworth (R-AZ); Jerry Weller (R-IL); Kenny Hulshof (R-MO); Jim McCrery (R-LA); Robert Matsui (D-CA); Sander Levin (D-MI); John Tanner (D-TN); and Lloyd Doggett (D-TX).

The witnesses presenting oral testimony for the hearing were:

**Panel:**

- Rep. Sam Johnson (R-TX) and Rep. Collin C. Peterson (R-MN)  
These Members of Congress are the sponsors of H.R. 5, the “Senior Citizens’ Freedom to Work Act of 1999.”

**The Honorable Kenneth S. Apfel, Commissioner, Social Security Administration**

**Panel:**

- Jane Baumgarten, Member, Board of Directors, American Association of Retired Persons, North Bend, Oregon
- Tom Woods, President, T.E. Woods Construction, Inc., Kansas City, Missouri, Chairman, Board of Trustees, National Association of Homebuilders
- Jim L. Martin, President, and Colonel Henry A. Hough, Member, 60 Plus Association, Arlington, Virginia
- Martha McSteen, President, National Committee to Preserve Social Security and Medicare
- Zed Wondemu, Owner, Zed’s Ethiopian Cuisine in Georgetown, National Restaurant Association

**Panel:**

- Leora Friedbergh, Ph.D., Assistant Professor of Economics, University of California, San Diego, National Bureau of Economic Research, Cambridge, Massachusetts
  - Bruce Bartlett, Senior Fellow, National Center for Policy Analysis
  - Robert Greenstein, Executive Director, Center on Budget and Policy Priorities
  - Aldona Robbins, Ph.D., Senior Research Fellow, Institute for Policy Innovation, Lewisville, Texas
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**Reps. Sam Johnson (R-TX) and Collin C. Peterson (R-MN) were the first witnesses to present testimony. The following are items of importance from their testimony:**

- H.R. 5, the “Senior Citizens’ Freedom to Work Act of 1999,” would eliminate the Social Security earnings penalty – the law under which Social Security recipients between 65 and 69 lose one dollar in Social Security benefits for every three dollars they earn from employment beyond a \$17,000 ceiling.
  - The Social Security earnings penalty is complicated and difficult for senior citizens to understand.
  - The Social Security earnings penalty is complex and costly for the federal government to administer.
  - Repeal of the earnings penalty will not affect Social Security’s financial status over the long run.
  - On February 14<sup>th</sup>, the President agreed to sign this bill or one similar to it.
  - H.R. 5 is scheduled to be marked-up by the House on February 16<sup>th</sup>.
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**Commissioner Kenneth S. Apfel was the next witness to testify. The following are items of importance from his testimony:**

**The Honorable Kenneth S. Apfel, Commissioner, Social Security Administration**

- The President believes that it is important to modernize the Social Security system by eliminating the outdated retirement earnings test at normal retirement age (NRA).
- The President would also like to work together to use the benefits of debt reduction to extend the solvency of Social Security to about 2050 and improve Social Security’s effectiveness in combating poverty among elderly women.
- The President is committed to working with Congress on a bipartisan basis to enact reforms that make Social Security solvent for at least 75 years.
- President’s Budget Framework:
  - Use the Social Security surpluses over the next 10 years to improve the Federal Government’s balance sheet, and then during 2011 through 2050 transfer the interest savings to the Social Security trust fund.
  - Also, beginning in 2011, invest a limited amount of the trust fund in equities.

- Importance of Social Security for Women:
  - The President is committed to helping elderly women.
  - Elderly women typically have higher poverty rates than other elderly.
  - Poverty rates are higher among non-married women than married women beneficiaries.
  - Widows account for the largest proportion (66 percent) of poor aged beneficiary women.
- Social Security Reform and Women:
  - Social Security reform proposals can have very different effects on women and men.
  - Although program rules are gender neutral, lifetime earnings patterns and life expectancies differ.
  - Women tend to have lower lifetime earnings, work fewer years in covered employment, and because of their longer life expectancies, spend more time than men in retirement.
  - Income security remains elusive for many elderly women. Because of this, a comprehensive Social Security reform package must include provisions to protect elderly women as well as achieving solvency.
- Retirement Earnings Test:
  - The “all-or-nothing” test in the original 1935 Social Security Act has been modified numerous times. These modifications have allowed retirees to supplement benefits with earnings up to a specified level.
  - Other modifications have occurred regarding exemption age; non-covered wages; reduction of benefits based on the amount of earnings over the exempt amount; and the earnings test exempt amount has increased with increases in average wage levels.
  - Most recent change was in 1996 – the annual exempt amounts for beneficiaries aged 65 to 69 was legislated to rise annually. This year the amount is \$17,000; \$25,000 in 2001; and \$30,000 in 2002.
- Issues Associated with Eliminating the Retirement Earnings Test:
  - Whether the RET should be eliminated at age 62 or at the normal retirement age (currently 65 but scheduled to rise gradually to 67).
  - Eliminating the RET could have an effect on the choice of older Americans of whether and how much to work.
  - There is a limited amount of evidence on the overall effect of the RET on labor supply and it is impossible to form a definitive conclusion.
  - Eliminating the RET below the normal retirement age might change the risks that older Americans face down the road. More workers would elect to receive benefits as soon as they became eligible – resulting in reduced monthly benefits. These beneficiaries might not have sufficient outside resources to offset the reduction in benefits.
  - The widow(er)s of workers who retire before full benefit retirement age also get permanently reduced benefits – the elimination of the RET at 62 could also have a negative impact on the number of elderly women living in poverty in the future.
  - The Administration believes the best policy would be to eliminate the earnings test at NRA. Eliminating the RET at age 62 raises serious concerns about increasing poverty among elderly women – would not want to consider it without at least making sizeable changes to the program to mitigate the effects.

- Next Steps:
  - Pass a straightforward bill to repeal the RET. If Congress sends the President a clean bill to repeal the RET at NRA (with no extraneous, non-Social Security matters whatsoever) he will sign it.
  - Congress passes and sends a bill to the President that extends the solvency of Social Security to about 2050 and includes significant measures to reduce poverty among elderly women. The President has given Congress straightforward legislation that ensures that the interest savings earned by paying down the publicly held debt is devoted to making Social Security stronger.

The following questions were put forward by the members of the Subcommittee:

**Rep. Johnson: Would the elimination of the RET make it easier for the SSA?**

Commissioner Apfel: It would simplify the administration of the program as well as simplifying things for the beneficiaries.

**Rep. Johnson: What about staff?**

Commissioner Apfel: It takes about 1200 staff per year to administer the program.

**Rep. Johnson: Could you downsize the SSA?**

Commissioner Apfel: No! The SSA has many pressing concerns – one of which is the huge workload.

**Rep. Johnson: Could you use the staff to eliminate the backlog?**

Commissioner Apfel: Yes.

**Rep. Matsui: Will you have to coordinate more with the IRS? Isn't the revenue implication approximately \$23 billion?**

Commissioner Apfel: The revenue implications are: approximately \$17 billion for the first 5 years and approximately \$26 billion over 10 years.

**Rep. Matsui: With the eventual elimination of the delayed retirement credit, will the results be revenue neutral?**

Commissioner Apfel: Yes. The long-term cost is near zero – there is no negative system impact.

**Rep. Matsui: What about the issue of the blind and other disabled receiving SSI – is there a way to treat the blind separately?**

Commissioner Apfel: There are two income thresholds – the one for the blind is higher. There are both long-term and short-term costs. The cost is \$2.5 billion over five years (if the threshold for the blind is eliminated).

**Rep. Collins: What about the number of the staff needed to administer the test – how does that break down?**

Commissioner Apfel: Approximately 800 staff are required to administer the 65 and above RET. Approximately 400 staff are required for the 62-64 RET.

**Rep. Collins: We have not received the workforce report? Where is it?**

Commissioner Apfel: I am unaware of the requirement for that report. But, that is what we need to do – come up with a long-term framework.

**Rep. Collins: So is this a “people” problem?**

Commissioner Apfel: Yes, but it is also an automation problem, and facing the retirement of the SSA workforce.

**Rep. Tanner: There is no adverse effect on solvency?**

Commissioner Apfel: That is true.

**Rep. Hayworth: It is imperative that we eliminate the earnings limit. It especially hits small businesses and self-employed seniors. Does this legislation address these issues?**

Commissioner Apfel: Yes, it does.

**Rep. Hulshof: Regarding the blind and non-blind – What is “substantial gain activity?”**

Commissioner Apfel: This was changed to \$700 per month – it is the amount that can be gained before losing benefits. There is a higher limit of \$1170 for the blind.

**Rep. Hulshof: How does this differ from the earnings limit?**

Commissioner Apfel: The earnings limit will be eliminated.

**Rep. Hulshof: Are there other benefits the blind receive that other disabled do not?**

Commissioner Apfel: I am not aware of any.

**Rep. Hulshof: Didn't the ADA say we would treat all those with disabilities the same?**

Commissioner Apfel: I believe the blind should receive a higher benefit.

**Rep. Hulshof: How do you feel about relinking the blind with other disabilities?**

Commissioner: This would have a negative impact on the solvency of Social Security.

**Rep. Hulshof: Do you not have a position? (referring back to relinking blind with other disabilities)**

Commissioner Apfel: This must all be viewed in the context.

**Rep. Shaw: The regulations are very complicated aren't they? Seniors are confronted by all this. How many pages in the regulations?**

Commissioner Apfel: Many pages – it's quite a complex law.

**Rep. Shaw: Your term ends soon, doesn't it?**

Commissioner Apfel: Yes, it ends in 1 year. The next Commissioner will be appointed for a six-year term.

**Rep. Shaw: What about your involvement in the upcoming political struggle?**

Commissioner Apfel: It is inappropriate for me to endorse anyone or to become involved – unless proposals involve the SSA (solvency, mission, etc.).

**Rep. Shaw: Congress would like to work with you to simplify the code.**

Commissioner Apfel: I look forward to doing that.

**Rep. Doggett: Is the bill contradictory with locking away 100% of the Social Security surplus?**

Commissioner Apfel: Some of the surplus would be used in the short-term, but it would come back.

**Rep. Doggett: So it doesn't lock away the surplus?**

Commissioner Apfel: It does reduce the surplus – but only in the short-term.

**Rep. Doggett: So is it inconsistent with using 100% of the surplus to pay down the debt? It also affects a wide range of individuals – both in health and wealth. It's an approach that starts at the top and works its way down, doesn't it?**

Commissioner Apfel: It does affect different groups differently. In the short-term it affects upper income elderly positively. In the long-term there is no differentiation. If it took effect at 62 it would have a sizable poverty effect, it is a negligible effect at 65, and because of the lack of the deferred retirement credit it will have a zero effect.

**Rep. Doggett: It is the “eat dessert first” approach to reform, isn’t it?**

Commissioner Apfel: It would be better to deal with the entire issue of reform. I would have serious reservations if the long-term effect were not zero.

**Rep. Shaw: It is a small part – but at least it is reform. The Commissioner has made it clear that it is revenue neutral. It will affect different groups differently – consider the issue of life expectancy.**

**Rep. McCrery: What’s the rationale for the differentiation between the blind and other disabled?**

Commissioner Apfel: The challenges for the blind are more severe – the difference is justified. It has been recommended to expand the limit for the non-blind also. The Ticket to Work legislation was a very important first step.

**Rep. McCrery: Would this bring the non-blind level up to the blind level?**

Commissioner Apfel: Incentives are being considered.

**Rep. McCrery: The President has addressed Social Security reform and bringing women out of poverty. This legislation isn’t contingent on the other two items, is it?**

Commissioner Apfel: No. The President did not say this legislation would be held up.

**Rep. McCrery: Do you know what the President is proposing regarding women and reform?**

Commissioner Apfel: There is no one specific proposal – I will provide a listing of approximately six for the record.

**Rep. Levin: Is there a difference in how this affects women as opposed to men?**

Commissioner Apfel: There are different effects on all groups. If eliminated at 62, the long-term poverty effect would impact approximately 700,000 people. If eliminated at 65 there would be no poverty effect. At age 62, 75% of those people affected by poverty would be women – again, at age 65 there would be no effect.

**Rep. Matsui: Is there a “notch” problem.**

Commissioner Apfel: No, there is no “notch” problem.

**Rep. Collins: Regarding the use of the word “surplus.” I have some concerns about using that word – don’t we really just have a positive cash flow (which will reverse in a few years)?**

Commissioner Apfel: That is a fair way to look at things – there is a positive cash flow for approximately the next 13-14 years. When Congress decides what to do about the non-Social Security surplus, something should go to Social Security to ensure solvency.

**Rep. Collins: Eliminating the RET doesn’t have a negative effect on payroll tax, does it?**

Commissioner: No, actually it has a positive effect. (Total of approximately 25% more payroll taxes, higher rate of taxation, and lower Medicare costs.)

**Rep. Collins: Isn’t the earnings limit really a penalty and not a tax?**

Commissioner Apfel: It is perceived as such.

**Rep. Collins: Suppose there is no need to borrow the FICA tax – in what interest-bearing account should it be deposited in?**

Commissioner Apfel: We need to invest not only in the Treasury, but also in equities (to ensure a higher rate of return). I realize there is resistance in Congress to this idea.

**Rep. Collins: What interest-bearing account?**

Commissioner Apfel: Bonds, etc.

**Rep. Shaw: Dollars going out of the Reserve represent a liability. If we start talking about privatization, that is a dangerous road to go down. We need to continue to invest in Government securities – we should not privatize Social Security at all.**

Commissioner Apfel: I believe a legitimate option is to diversify the portfolio – obviate tax increases and benefits – it is the right thing to do for the long term.

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The next panel was composed of representatives from business and advocacy groups. These witnesses gave testimony regarding how the RET has affected them or their businesses personally.

The following questions were put forward by the members of the Subcommittee:

**Rep. Johnson: The older workers are needed to teach the trade, aren't they?**

Tom Woods: That's true, they have years and years of experience.

**Rep. Shaw: Work ethic is also a factor.**

**Rep. Hulshof: Aren't these older workers also doing the manual labor as well as the training?**

Tom Woods: Yes, this is true. I shouldn't have to tell these people they can't work. Older people serve as role models for the younger ones.

**Rep. Portman: Why is the limit unfair?**

Martha McSteen: The urgency is for the moment – these people need the income now.

Jane Baumgarten: Looking down the road doesn't register for these people, they are working because they need the money now.

**Rep. Portman: Isn't it true that these individuals might not live long enough to get the delayed credit?**

Martha McSteen: We must recognize that individuals may die.

**Rep. Shaw: Why should Congress decide when you get the benefits you've earned?**

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The final panel was composed of witnesses who gave testimony regarding research and statistics.

The following questions were put forward by the members of the Subcommittee:

**Rep. Portman: Why is your research indicating more behavioral shifts?**

Leora Friedberg: I have been using more recent data. There were no changes to the RET in the 1970s, so there was no data.

**Rep. Portman: Hasn't your research shown that more people would continue to work?**

Leora Friedberg: Yes.

**Rep. Portman: There are proposals out there for reform – they probably won't happen this year. Regarding early retirement – is it in general a bad idea? Should it be discouraged? Should this option be changed all together?**

Robert Greenstein: It is not so much a problem with early retirement, but that of drawing benefits. A concern with raising the age is controversy (people that physically can't keep working), but it is worth looking at. We need mechanisms to take care of people who

can't work, but who aren't fully disabled. If we eliminate the RET the percentage of people goes up and it becomes politically harder to repeal at a later date.

Bruce Bartlett: The Committee also needs to take into account increasing the age limit – if the delayed retirement credit (now at 70) remains it may need to be raised.

**Rep. Matsui: What is the percentage breakdown between men and women of the 60% who retire early?**

Leora Friedberg: It seems about even.

Copies of all of the participants' written statements are available. Please contact us if you have any questions or would like copies.

H.R. 5 was approved by the Social Security Subcommittee on February 16<sup>th</sup>. Chairman Shaw updated the effective date of the bill to January 1, 2000, by a voice vote of the subcommittee. Sen. John McCain (R-AZ) is sponsoring a bill (S. 279) which is similar to H.R. 5. Shaw said he expects H.R. 5 to go to the House floor the first week in March after full committee action. He predicted the Senate would be "very positive" about it.

Two proposals that may slow or complicate legislative action are: eliminating the earnings test for workers 62 to 65; and advocates for the blind in both the House and Senate are interested in improving their status – though not necessarily exempting them from any earnings test.

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