

EBRI NOTES

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EBRI EXPLORES PROPOSALS FOR EXPANDING FICA TAX BASE

EBRI held a seminar on October 5 at the request of Senator John Heinz. Its purpose was to analyze the implications of limiting the amount of income excludable from FICA taxes. A diverse group of fourteen private employee benefit specialists and eight specialists from the Congress and the executive branch attended the seminar.

Senator Heinz specifically discussed the possibility of placing a cap (e.g., 25 percent) on the percentage of nonwage compensation that can be excluded from FICA taxes. Discussion focused on:

- (1) the realism of future nonstatutory benefit growth projections used by the Social Security actuaries (from 16.3 percent of cash compensation in 1981 to 38.2 percent in 2056);
- (2) the impact of changing tax treatment for employee benefit growth;
- (3) the prospect of designing effective methods for stopping "leakages" from the payroll tax system; and
- (4) the administrative complexity of valuing benefits (i.e., the value to each employee of a defined benefit contribution).

The seminar group reached the following conclusions:

- The ability to avoid payroll taxes may be one stimulus behind fringe benefit growth. However, benefit taxation decisions should be independent from decisions on the way Social Security is financed.
- Establishing a ceiling on total nonstatutory benefits would be inefficient and could prove discriminatory if administered on a worker-by-worker basis.
- Taxing benefits would affect plan content, design, cost and cost-sharing and would have differing interindustry effects.

- Back doors out of paying Social Security taxes should be closed. This might be best accomplished by making coverage universal rather than employer-specific.
- A basic issue which needs to be explored in the realm of tax policy concerns the circumstances under which noncash compensation should be favored over cash compensation. Questions to be addressed include: should this tax basis apply to all benefits or only to those that help fulfill social purposes (e.g., retirement income or health maintenance).

Study of this issue will continue and should be monitored by both sponsors and service providers. The tax treatment of employee benefits will be the focus of two major EBRI projects in 1983.

EBRI'S SOCIAL SECURITY POLICY STUDY RELEASED

EBRI has just released a new book entitled Social Security: Perspectives on Preserving the System. This book reports the results of a year-long study on Social Security, its financing problems and a broad range of potential solutions. The study presents, for the first time, detailed information on the income distribution consequences of proposed reforms.

Social Security retirement benefits have had a dramatic effect on the elderly's economic well-being over the last four decades. Many other facets of federal law, however, have also enhanced the elderly's income security and should not be overlooked. Today, the elderly receive income from an amalgam of publicly and privately organized programs and individual provisions. The primary goal of these programs is to provide adequate income to the elderly. While all the major components of this loosely configured system have evolved in the last forty-five years, they have not developed at the same rate. This is an important point to understand, because the relative roles of the various income sources for future elderly groups will be somewhat different than for current groups.

Almost everyone knows that Social Security is experiencing financing problems. There are differences of opinion about the problem's magnitude and disagreements over potential solutions, but virtually all experts agree there is a serious problem. This has led to the conclusion that Social Security modifications are imperative if this vital element of the U.S. retirement system is to retain its widespread public support and confidence. Past policy considerations have focused primarily on one component of the retirement system at a time with little regard for the other components. The Social Security modifications that are under consideration have far reaching implications not only for beneficiaries and taxpayers but for other income security programs as well. It is imperative, therefore, to consider the implications that Social Security modifications have for other programs. Before considering various policy options that will change the mix of program components, it is necessary to understand where current policies could lead us. Comparison of current policies with alternative policies can provide perspective on the implications of the various potential options.

A host of proposals has been put forward to resolve Social Security's short- and long-run financial imbalances. There are proposals to: (1) move forward

the scheduled payroll tax increases now in law; (2) expand the income base subject to the payroll tax; (3) include in the tax base employee benefits that are not currently included in wage payments; (4) finance part or all of HI out of general revenues and allocate the HI portion of the payroll tax to the OASI program; (5) finance part of OASDI out of general revenues on an ongoing or countercyclical basis; (6) reduce COLAs for a period of time; (7) change COLA procedures; (8) tax Social Security benefits and earmark the revenues for OASI financing; (9) reduce the projected growth in initial benefits entitlement; (10) eliminate or reduce benefits for certain categories of beneficiaries; (11) modify the benefit adjustments for early and late retirees; (12) expand coverage; and (13) phase the program out altogether.

Each of these proposals has different implications in the short and long run. Additionally, each would have different distributional effects with differential sharing of tax burdens and benefit modifications.

FBRI's study evaluates the implications of these various options in light of Social Security's long-term policy goals as well as more recent developments. Historically, Social Security's primary policy concern has been to balance the program's adequacy and equity goals. More recently, financial solvency and public support have become important policy concerns.

In addition to its analysis of the Social Security issue, the book considers the role of other retirement programs in providing future income security for the elderly.

Social Security: Perspectives on Preserving the System is available for \$15.00 (hardbound - \$28.00). EBRI Members and Associates receive a 30 percent discount on all major publications.

PENSION INTEGRATION: CONCEPTS, ISSUES AND PROPOSALS

This FBRI study examines the coordination of pension plan benefits with Social Security benefits--pension integration. It focuses on the issues associated with the use of integration including its

- (1) effect on retirement income adequacy;
- (2) impact on pension plan costs; and
- (3) relationships to tax policy.

A detailed discussion of how integration works and how it has developed is also included. The study compiles all available evidence on the extent of integration among pension plans and the incidence of various integration methods. Recent and current proposals (including legislative proposals) on integration are also discussed. In a final section, the study identifies areas where future research on the subject of integration is needed. If such research is conducted, it will provide a more complete factual base for future policy discussions.

The effects of integration are illustrated by examples of workers at various earnings levels in offset, excess and step-rate plans. While it is true that integrated employer plans are designed to replace an increasing proportion of preretirement earnings as earnings increase, the examples show that total

retirement income (i.e., Social Security and pension benefits) as a proportion of preretirement earnings still decreases with increased earnings.

Much of the proposed regulation and legislation concerning integration has been submitted in the belief that:

- (1) abuses have occurred and continue to occur within current integration guidelines; and
- (2) the tax incentives given to qualified integrated plans provide a rationale for the encouragement of social goals.

Opponents of regulatory and legislative initiatives have generally disagreed with both contentions. Abuses among integrated plans, they argue, are rare and occur mainly in a few small plans covering a very small number of workers. Also, they believe that tax incentives received by employers are, in actuality, only an ordinary business expense deduction. Further, they contend that the nation benefits from this tax encouragement, because the result is a voluntary pension system that supplements Social Security and supports the important economic goal of adequate capital formation.

Recent discussions about integration policy (e.g., the debate over the 1978 Carter proposal, the hearings before the President's Commission on Pension Policy and the debate over the 1982 Pension Equity Tax Act, H.R. 6410) indicate significant disagreement regarding the impact of integration. The findings from FBRI's data collection, tabulation and analysis efforts should help to resolve some of the disagreements so that future policy discussions may be better informed.

FBRI will publish this study in Spring 1983. It will be available through FBRI Publications for \$15.00 (nonmembers).

1982 FBRI ISSUE BRIEF LISTING

"Changing the Tax Treatment of Health Benefit Programs" Issue Brief #5

"The Burden of Saving Medicare" Issue Brief #6

"Will Pension Plans Save the Housing Industry?" Issue Brief #7

Special Edition "The Pension Equity Tax Act" Issue Brief #8

"Prospective Hospital Reimbursement: For What, For Whom?" Issue Brief #9

"Federal Pensions: An Island of Privilege in a Sea of Budget Austerity" Issue Brief #10

"State and Local Government Plans: Is Federal Regulation Coming?" Issue Brief #11

"Reverse Annuity Mortgages: A Viable Source of Retirement Income?" Issue Brief #12

"Has the Time for Consistent Federal Retirement Income Policy Arrived?" Issue Brief #13

Issue Briefs are available free of charge to Members and Associates and to others for \$5.00 each (prepaid).

SELECTED DEMOGRAPHIC AND ECONOMIC STATISTICS

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Prepared by Sally Brennan
December 1982

TABLE 1
Percentage of Population Who Worked During Year

Year	Age		
	45-54	55-64	65 and Over
<u>Males</u>			
1960	95.7%	86.8%	33.1%
1970	94.2	83.0	26.8
1975	92.1	75.8	21.7
1979	91.4	73.0	20.0
1980	91.2	71.0	19.1
<u>Females</u>			
1960	49.8%	37.2%	10.8%
1970	54.4	43.0	9.7
1975	54.6	43.0	8.3
1979	58.4	41.0	8.3
1980	59.9	41.5	8.1

Source: 1981 Statistical Abstracts of the United States, p. 383.

TABLE 2
Percentage Distribution of Employed Persons by Sex and Marital Status

	1970	1973	1977	1978	1979	1980
<u>Males</u>						
Married, spouse present	48%	46%	42%	41%	40%	39%
Single, never married	10	11	12	13	13	13
Widowed, divorced, separated	3	4	4	4	4	4
Subtotal	<u>61%</u>	<u>61%</u>	<u>58%</u>	<u>58%</u>	<u>57%</u>	<u>56%</u>
<u>Females</u>						
Married, spouse present	23%	23%	24%	24%	24%	24%
Single, never married	9	9	10	10	10	11
Widowed, divorced, separated	7	7	8	8	9	9
Subtotal	<u>39%</u>	<u>39%</u>	<u>42%</u>	<u>42%</u>	<u>43%</u>	<u>44%</u>
Total	100%	100%	100%	100%	100%	100%

Source: 1981 Statistical Abstracts of the United States, p. 385.

TABLE 3

Employed Persons Age 16 and Over in the United States

	1970	1973 ^{1/}	1977	1978	1979	1980	Percent Change 1970-1980 ^{2/}
<u>Males</u>							
Married, spouse present	37,964	37,822	38,397	38,688	39,090	38,302	1%
Single, never married	8,416	9,808	11,646	12,584	13,053	13,113	55
Widowed, divorced, separated	2,580	3,265	3,817	4,220	4,356	4,573	77
<u>Females</u>							
Married, spouse present	17,561	18,908	21,881	21,881	22,724	23,097	31%
Single, never married	6,607	7,040	8,899	9,674	10,176	10,340	56
Widowed, divorced, separated	5,499	5,997	6,811	7,327	7,546	7,845	43
Total	78,627	82,840 ^{2/}	90,546	94,373	96,945	97,270	23%

Source: 1981 Statistical Abstracts of the United States, p. 383.

^{1/} 1980 Employment and Training Report of the President, pp. 281, 282.

^{2/} EBRI revised tabulation.

TABLE 4
Labor Force Participation Rates

Age Group	1960	1970	1977 ^{1/}	1978	1979	1980
<u>Males</u>						
16-17	-	-	50.3	-	-	-
18-19	-	-	72.5	-	-	-
16-19	56.2	56.1	-	62.1	60.7	60.7
20-24	88.1	83.3	85.7	86.0	86.6	86.0
25-34	97.5	96.4	95.4	95.4	95.4	95.3
35-44	97.7	96.9	95.7	95.7	95.8	95.5
45-54	95.7	94.2	91.2	91.3	91.4	91.2
55-64	86.8	83.0	74.0	73.5	73.0	72.3
65 and over	33.1	26.8	20.1	20.5	20.0	19.1
Total age 16 and over	83.3	79.7	77.7	77.9	77.9	77.4
<u>Females</u>						
16-17	-	-	42.2	-	-	-
17-18	-	-	60.5	-	-	-
16-19	39.3	44.0	-	53.9	54.5	53.1
20-24	46.1	57.7	66.5	68.3	69.1	69.0
25-34	36.0	45.0	59.5	62.1	63.8	65.4
35-44	43.4	51.1	59.6	61.6	63.6	65.5
45-54	49.8	54.4	55.8	57.1	58.4	59.9
55-64	37.2	43.0	41.0	41.4	41.9	41.5
65 and over	10.8	9.7	8.1	8.4	8.3	8.1
Total age 16 and over	37.7	43.3	48.4	50.0	51.0	51.6

Source: 1981 Statistical Abstracts of the United States, p. 381.

^{1/} 1980 Employment and Training Report of the President, pp. 224, 225.

TABLE 5

Labor Force Participation Rates of Married Women with Husband Present

Presence of Children	1960	1970	1975	1980
No children under 18	34.7	42.2	43.9	46.1
With children age 6-17	39.0	49.2	52.3	61.8
With children under 6	18.6	30.3	36.6	45.0

Source: 1980 Statistical Abstracts of the United States, p. 386.

TABLE 6

Labor Force Participation Rates for Persons
Age 65 and Over

Year	Male	Female
1960	33.1	10.8
1965	27.9	10.0
1970	26.8	9.7
1975	21.7	8.3
1976 ^{1/}	20.3	8.2
1977 ^{1/}	20.1	8.1
1978	20.5	8.4
1979	20.0	8.3
1980	19.1	8.1

Source: 1981 Statistical Abstracts of the United States, p. 381.

^{1/} 1980 Employment and Training Report of the President, pp. 224, 225.

TABLE 7

Median Family Income in 1979 Dollars

<u>Year</u>	<u>All Families</u>	<u>White</u>	<u>Black</u>
1950	10,008	10,388	5,636
1960	13,774	14,301	7,917
1970	18,444	19,134	12,180
1974	18,990	19,735	12,626
1976	19,073	19,811	12,522
1977	19,176	20,051	12,148
1978	19,626	20,436	13,077
1979	19,661	20,502	12,380

Source: 1981 Statistical Abstracts of the United States, p. 436.

Note: 1980 figures are not available.

TABLE 8

Median Money Income of Families by Family Type in Current Dollars

	1950	1960	1970	1977	1978	1979
Families with Male Head of Household						
Married, wife present	\$ 3,400	\$ 5,900	\$ 10,500	\$ 17,600	\$ 19,300	\$ 21,500
Wife in paid labor force	N/A	6,900	12,300	20,300	22,100	25,000
Wife not in paid labor force	N/A	5,500	9,300	15,150	16,200	17,800
Other marital status	3,100	4,900	9,000	14,500	16,000	16,900
Families with Female Head of Household	1,900	3,000	5,100	7,800	8,500	9,900
Unrelated Individuals						
Male	1,500	2,500	4,500	7,800	8,900	10,200
Female	800	1,400	2,500	4,800	5,500	6,000

Source: 1981 Statistical Abstracts of the United States, p. 438.

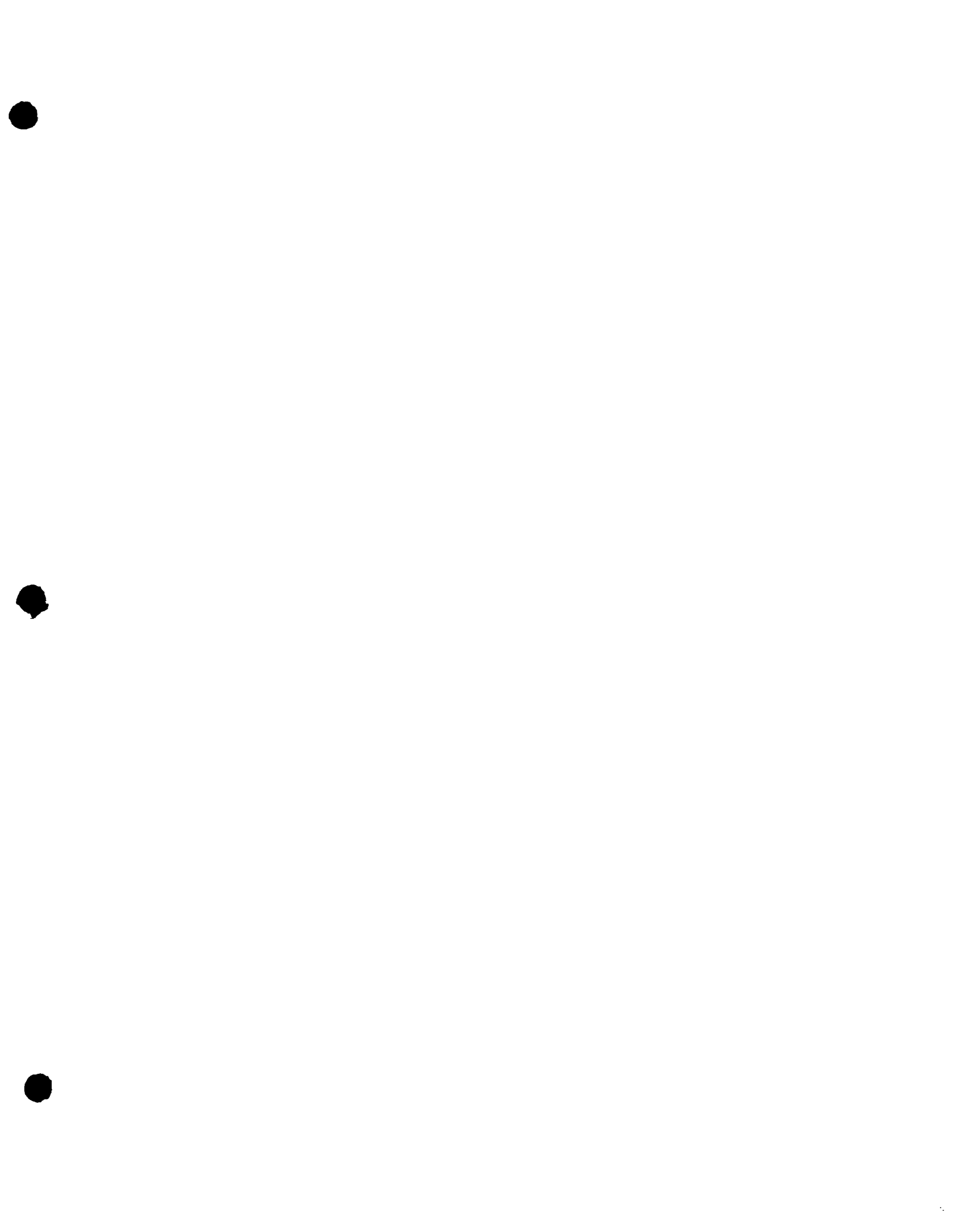
TABLE 9

Change in Life Expectancies

Year	White		Black and Other	
	Male	Female	Male	Female
<u>Life Expectancies at Birth</u>				
1920	54.4	55.6	45.5	45.2
1940	62.1	66.6	51.5	54.9
1960	67.4	74.1	61.4	66.1
1976	69.7	77.3	64.1	72.6
1977	70.0	77.7	64.6	73.1
1978	70.2	77.8	65.0	73.6
1979 <u>1/</u>	70.6	78.3	65.5	74.5
<u>Life Expectancies at Age 65</u>				
1940	12.1	13.6	12.2	14.0
1960	13.0	16.9	12.8	15.1
1975	13.7	18.1	13.7	17.5
1979 <u>1/</u>	14.3	18.7	14.6	18.5

Source: 1981 Statistical Abstracts of the United States, p. 69.

1/ Preliminary figures from 1981 Statistical Abstracts of the United States, p. 69.



The Employee Benefit Research Institute (EBRI) was established in 1978 to contribute to the development of public policy in the employee benefit field. EBRI, a nonprofit organization, has a broad membership that includes private sector companies and individuals with interests in employee benefit education, research and public policy.

EBRI also has a separate Education and Research Fund (ERF) which is operated exclusively to conduct charitable educational and research activities. The Fund is tax exempt under section 501(c) (3) of the Internal Revenue Code and is not a private foundation. EBRI Associates make contributions or grants to the Fund which are deductible as charitable contributions.

EBRI's policy forums, research studies, issue briefs, pamphlets and other publications aid public and private sector decision makers, managers, the press and the general public in formulating and articulating positions on employee benefit issues. As health and retirement issues receive increasing attention, the Institute strives to make effective and responsible contributions to public policy.

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