**Solving Social Security**

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**Classroom Materials**

**Course Description**

The Social Security Trust Fund is projected to be exhausted by 2033 according to the 2023 Trustees Report. What should we as a nation do about that? Should we increase taxes? Reduce benefits? Both? Do nothing? Change the nature of the Social Security system? Scrap the system? This short course will describe our Social Security system and explore alternative policy options. Everyone in the class will be expected to participate and express their own views. There is no required reading, but you will have two homework assignments: Watch a specific episode of "The West Wing," and come up with your own plan for the future of the Social Security system.

**Study Group Leader**

Martin Silfen was a practicing tax attorney for 21 years, specializing in retirement planning and estate planning, and a wealth planner with a wealth management firm for 14 years. He is the author of The Retirement Plan Distribution Advisor (2002). He has previously led OLLI courses in Social Security policy, tax policy and financial planning.

**Homework Assignments**

1. Before the final class, devise a plan to deal with the looming insolvency of the Social Security system. If you could control legislation, what would you do?
* Repeal Social Security altogether?
* Pay only the percentage of benefits funded by the Trust Fund?
* Pay full benefits by paying any shortfall out of general revenues?
* Make the Trust Fund solvent? Go to <http://crfb.org/socialsecurityreformer/> and select your favored way to fix Social Security’s actuarial imbalance.
* Something else?

Summarize your proposal on the form on pages 24 and 25, and bring your proposal to the final class.

1. At your leisure, watch the following episode of “The West Wing,” in which Toby Ziegler and Jed Bartlett attempt to save Social Security. It’s a primer on why Social Security is the third rail of American politics.

The West Wing, Season 5, Episode 12, entitled “Slow News Day.” It can be found on Amazon Prime, HBO Max, Apple TV, YouTube, Google Play, Vudu.

For more background on the episode, you can listen to a podcast with its writer and others, here: http://thewestwingweekly.com/episodes/512

**Social Security Benefits**

**Types of Social Security Benefits**

* Worker’s retirement benefit
* Worker’s disability benefit
* Widow/widower’s benefit
* Spousal retirement benefit
* Child’s benefit
* Death benefit

**Amount of Worker’s Social Security Retirement Benefit**

* Based on highest 35 years of wages, which need not be consecutive years
* Wages are indexed for *wage* inflation at your age 60
* Only wages up to the Taxable Wage Base are counted
* Divide the total by 420 (= 12 x 35) to get your Average Indexed Monthly Earnings (AIME)
* Benefit is progressive, with a higher percentage for lower average wages
* Social Security benefit at Full Retirement Age is your Primary Insurance Amount (PIA)
* Primary Insurance Amount (PIA):
	+ 90% x AIME up to $1,174 (in 2024), plus
	+ 32% x AIME between $1,174 and $7,078 (in 2024), plus
	+ 15% x AIME exceeding $7,078 (in 2024)
* Progressivity of Social Security benefit results in the following sample wage replacement rates for workers retiring in 2023 at Full Retirement Age:
	+ Very low earner: 78.3% (of $15,867 average earnings)
	+ Low earner: 57.0% (of $28,561 average earnings)
	+ Medium earner: 42.3% (of $63,469 average earnings)
	+ High earner: 35.0% (of $101,550 average earnings)
	+ Maximum (TWB) earner: 27.8% (of $156,274 average earnings)

 Source: <https://www.ssa.gov/oact/NOTES/ran9/index.html>

* Your Social Security benefit is thereafter indexed for *cost-of-living* inflation
* Full Retirement Age

|  |  |
| --- | --- |
| **Year of Birth** | **Full Retirement Age** |
| 1937 or earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 or later | 67 |

**Effect of Start Date on Amount of Benefit**

* Social Security retirement benefits can start as early as age 62
* Beginning retirement benefits before Full Retirement Age (FRA) causes a permanent reduction in your benefit from your Primary Insurance Amount (PIA), as follows
	+ 5/9% reduction for each of the first 36 months before FRA, plus
	+ 5/12% reduction for each month in excess of 36 before FRA
* Example 1: Your FRA is age 66. Your PIA at FRA is $1,800 per month.
	+ Example 1A: You begin your benefit at age 64, which is 24 months before your FRA. Your monthly retirement benefit will be permanently reduced by 13.33% (= 5/9% x 24 months), from $1,800 to $1,560.
	+ Example 1B: You begin your benefit at age 62, which is 48 months before your FRA. Your monthly retirement benefit will be permanently reduced by 25% (= 5/9% x 36 months + 5/12 x 12 months), from $1,800 to $1,350.
* Beginning retirement benefits after Full Retirement Age (FRA) causes a permanent increase in your benefit from your Primary Insurance Amount (PIA), as follows:
	+ 2/3% per month, for the number of months between FRA and age 70
	+ The percentage increase is lower if you were born on or before January 1, 1943
	+ There is no further increase for delaying retirement benefits beyond age 70.
* Example 2: Your FRA is age 66. Your PIA at FRA is $1,800 per month. You begin your benefit at age 68, which is 24 months after your FRA. Your monthly retirement benefit will be permanently increased by 16% (= 2/3% x 24 months), from $1,800 to $2,088.

**Effect of Working on Amount of Benefit**

* If you work before your Full Retirement Age while receiving your Social Security retirement benefit, your benefit will be reduced
	+ For years before your Full Retirement Age, by 50% of your earnings in excess of $22,320 (in 2024)
	+ For the year you reach your Full Retirement Age, by one-third of your earnings before your Full Retirement Age in excess of $59,520 (in 2024)
	+ If your pre-FRA benefit was reduced, you will receive a make-up benefit at FRA
* Investment income, pensions and annuities do not count as “earnings”
* Earnings after your Full Retirement Age do not reduce your benefit
* Wages and self-employment income earned after you begin receiving Social Security retirement income are subject to Social Security and Medicare payroll tax
* Your post-retirement wages and/or self-employment income count toward figuring your future retirement benefit and can therefore cause an increase in your benefit if the year’s earnings are one of your top 35 years
* Your post-retirement earnings can cause your Social Security retirement benefit to be taxed at a higher federal income tax rate

**Special Considerations for Married Couples**

* **Widow/Widower’s Benefit**
	+ The widow/widower of a deceased worker is generally entitled to a survivor’s benefit
		- Generally, 100% of the deceased worker’s benefit if the widow/widower has reached Full Retirement Age
		- Generally, 71.5%-99% of the deceased worker’s benefit if the widow/widower is between 60 and FRA
	+ The widow/widower’s benefit is reduced if they have earned a pension for work not covered by Social Security (e.g., as a government worker)
	+ If the widow/widower is entitled to their own retirement benefit, they get the greater of their own benefit or their survivor’s benefit
	+ Generally, the widow/widower’s benefit ceases if they remarry before age 60
* **Spousal Benefit**
	+ Generally,the spousal benefit is 50% of the working spouse’s Primary Insurance Amount
		- That is different from 50% of the working spouse’s actual benefit, which may be more or less than their PIA
	+ The spousal benefit is reduced if it begins before the spouse’s Full Retirement Age, as follows
		- 25/36% reduction for each of the first 36 months before FRA, plus
		- 5/12% reduction for each month in excess of 36 before FRA
	+ The spousal benefit is reduced if the spouse earned a pension for work not covered by Social Security (e.g., as a government worker)
	+ The spousal benefit is reduced by earnings before the spouse’s FRA as described above for workers
	+ If the spouse is also entitled to a Social Security retirement benefit on their own earnings record, they will receive the greater of their own retirement benefit or the spousal benefit
	+ **When May a Married Couple Begin Their Retirement and Spousal Benefits?**
		- There are four different decisions to make
			* Husband’s retirement benefit start date
			* Wife’s retirement benefit start date
			* Husband’s spousal benefit start date
			* Wife’s spousal benefit start date
		- There are many possible combinations of starting months between ages 62 (the earliest) and 70 (the latest age that makes sense)
		- Generally, you must start your spousal benefit at the same time you start your own benefit.
			* “Restricted Application” exception: If you were born in 1953 or earlier and you have reached your FRA, you may file a restricted application for spousal benefits while continuing to delay your own benefit and earning an increase in your own benefit.
		- Generally, your spouse may not start their spousal benefit until you have started your own retirement benefit.
			* “File and Suspend” exception: If you were born on or before May 1, 1950, and have reached your FRA by April 29, 2016, and you acted by April 29, 2016, you could have “filed and suspended,” i.e., filed for your own retirement benefit and immediately suspended your own retirement benefit, thereby (i) earning an increase in your own benefit, and (ii) enabling your spouse to receive a spousal benefit.
	+ **Examples**

In these examples, assume a married couple, Harvey and Sheila, both reaching age 66 in 2016. Harvey’s PIA is $1,800 per month and Sheila’s PIA is $800 per month. Both will live 20 years. For ease of calculation, assume no inflation.

* Example 3. Both file at FRA (age 66)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Monthly Benefit** | **Number of Months** | **Lifetime Benefit** |
| Harvey’s retirement benefit (66) | 1,800 | 240 | 432,000 |
| Sheila’s retirement benefit (66) | 800 | 240 | 192,000 |
| Harvey’s spousal benefit (66) | 0 | 240 | 0 |
| Sheila’s spousal benefit (66) | 100 | 240 | 24,000 |
|  Total |  |  | 648,000 |

* Example 4. Sheila files at FRA (age 66); Harvey files at 70

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Monthly Benefit** | **Number of Months** | **Lifetime Benefit** |
| Harvey’s retirement benefit (70) | 2,376 | 192 | 456,192 |
| Sheila’s retirement benefit (66) | 800 | 240 | 192,000 |
| Harvey’s spousal benefit (70) | 0 | 0 | 0 |
| Sheila’s spousal benefit (70) | 100 | 192 | 19,200 |
|  Total |  |  | 667,392 |

* Example 5. Sheila files at FRA (age 66); Harvey files at 70; Harvey files restricted application at 66

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Monthly Benefit** | **Number of Months** | **Lifetime Benefit** |
| Harvey’s retirement benefit (70) | 2,376 | 192 | 456,192 |
| Sheila’s retirement benefit (66) | 800 | 240 | 192,000 |
| Harvey’s spousal benefit (66 - 69) | 400 | 48 | 19,200 |
| Sheila’s spousal benefit (70) | 100 | 192 | 19,200 |
|  Total |  |  | 686,592 |

* Example 6. Sheila files at FRA (age 66); Harvey files at 70; Harvey files restricted application at 66; Harvey filed and suspended by April 29, 2016

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Monthly Benefit** | **Number of Months** | **Lifetime Benefit** |
| Harvey’s retirement benefit (70) | 2,376 | 192 | 456,192 |
| Sheila’s retirement benefit (66) | 800 | 240 | 192,000 |
| Harvey’s spousal benefit (66 - 69) | 400 | 48 | 19,200 |
| Sheila’s spousal benefit (66) | 100 | 240 | 24,000 |
|  Total |  |  | 691,392 |

**Divorced Spouse’s Benefit**

* + A divorced spouse who was married to a working spouse for at least 10 years is generally entitled to a divorced spouse’s benefit
	+ The ex-spouse must be entitled to a retirement benefit or disability benefit
	+ But, following two years after divorce, the ex-spouse need not actually apply for their benefit for the divorced spouse to receive a divorced spouse benefit
	+ Generally, the divorced spouse’s benefit is 50% of the working ex-spouse’s PIA
	+ But if the divorced spouse is younger than their FRA, the benefit is reduced as described above
	+ If the divorced spouse is entitled to their own retirement benefit, they get the greater of their own benefit or their divorced spouse’s benefit
	+ The divorced spouse’s benefit ceases upon their remarriage

**Funding the Social Security System**

**Revenue Sources**

The Social Security system gets its funds from the following sources:

* Social Security taxes (FICA and self-employment) (90.6% in 2022)
* Interest income on the Trust Funds (5.4% in 2022)
* Income tax attributable to taxing Social Security benefits (4.0% in 2022)

**Social Security Taxes**

* Wages are subject to 7.65% payroll tax
* Social Security portion of the tax is 6.2% of wages up to the Taxable Wage Base ($168,600 in 2024)
	+ Of that 6.2%, 5.015% is for old age and survivors’ insurance
	+ Of that 6.2%, 1.185% is for disability insurance
* Medicare portion of the tax is 1.45% of wages (unlimited)
* Employer pays an equivalent payroll tax
* Self-employed individuals pay an analogous tax of 15.3% of self-employment income (with adjustments), consisting of:
	+ 12.4% of self-employment income up to the Taxable Wage Base
	+ 2.9% of unlimited self-employment income

**Social Security Trust Funds**

Social Security taxes are held in “Trust Funds”

* Not true trust funds, but more like dedicated accounts
* The Trust Funds are credited with interest on special purpose U.S. Treasury bonds
* The Trust Funds actually consist of two separate Trust Funds
	+ The larger Trust Fund covers old age benefits and survivors’ benefits
	+ The smaller Trust Fund covers disability benefits

**Income Tax Attributable to Taxation of Benefits**

* Beginning in 1984, a portion of Social Security benefits became subject to income tax for the first time.
* The Treasury Department calculates its income tax revenue attributable to that taxation and transfers that amount to the Trust Funds.

**Hallmarks of the Original Social Security Plan**

* Coverage was mandatory.
* Coverage was universal for all employees (with some categories excepted).
* Coverage and benefits were determined irrespective of income or need.
* The system was centralized in the federal government rather than left to the states (like unemployment insurance), or private industry (like health insurance).
* Coverage was “earned,” in that employees paid for coverage during their working years.
	+ Benefits became an earned right rather than a form of public assistance.
	+ So that “no damn politician can ever scrap my social security program.” (Roosevelt).
* Benefits were somewhat progressive, in that lower income workers received a benefit that was a higher percentage of their average wages.
* Benefits were to be paid out of a dedicated trust fund rather than general revenues.
* Funding was to be a modified form of “pay as you go,” with an accumulation of an actuarially sound trust fund.

**Main Provisions of the 1935 Social Security Act**

* In addition to old age insurance (Title II of the Act), it provided for:
	+ Unemployment insurance
	+ Old-age assistance
	+ Aid to dependent children
	+ Grants to states to provide various forms of medical care
* Old-age insurance benefits to be provided to the primary worker at age 65
* There was no provision for survivor benefits to the widow/widower of the primary worker
* Payroll taxes were to begin being collected in 1937
	+ The payroll tax rate was to gradually increase from 1% in 1937 to 3% in 1949
	+ The maximum amount of wages subject to the tax was capped at $3,000
	+ Employers paid a similar amount of tax
* Benefits were to begin being paid in 1942
	+ A 1939 law advanced that date to 1940
	+ Ida May Fuller received the first monthly benefit check of $22.54 on January 31, 1940
	+ Between 1937 and 1939, lump sum “paybacks” were paid to compensate those who had tax withheld but retired before monthly payments became effective
	+ Ernest Ackerman received the first lump sum payback check after retiring one day after Social Security went into effect. He received 17 cents after paying 5 cents of payroll tax.

**History of the Social Security System**

(Source: <https://www.ssa.gov/history/index.html>)

**Pre-History of Social Security**

**1789** The Federal Government accepted the responsibility of providing pensions to disabled veterans of the Revolutionary War.

**1857** The first municipal pension fund was established providing disability and death benefits for New York City police.

**1875** The first private pension plan in American industry was adopted by American Express.

**1889**Germany became the first nation in the world to adopt an old-age social insurance program. Designed by Germany's Chancellor, Otto von Bismarck, the idea was first put forward, at Bismarck's behest, in 1881.

**1894**The first statutory retirement system for teachers was adopted in New York City.

**1896**The first statewide legislation for teachers' pensions was enacted in New Jersey.

**1898** The first State law in the USA providing pensions for the blind was enacted in Ohio.

**1911** The first contributory system of pensions covering all State employees was established in Massachusetts.

**1914** The first State law providing old-age pensions was enacted in Arizona. It abolished almshouses and provided pensions for aged persons, persons incapable of self support because of physical infirmities, and certain mothers with children. It was declared unconstitutional by the State Supreme Court in 1916.

**1915** The first old-age pension legislation not challenged on the grounds of constitutionality was enacted in the Territory of Alaska.

**1920** A Civil Service Retirement and Disability Fund was established for Federal employees.

**March 5, 1923** Montana's Old-age Pension Law was enacted. It was the first such State law to withstand the test of constitutionality.

**June 8, 1934** Federal legislation to promote economic security was recommended in the President's Message to Congress

**June 27, 1934** The Railroad Retirement Act of 1934 was approved by the president. The Act, to be administered by the Railroad Retirement Board, provided for retirement and disability annuities and lump-sum payments to survivors.

**History of Social Security**

**August 14, 1935** The Social Security Act (H.R. 7260, Public Law No. 271, 74th Congress) became law with the President's signature.

**January 1, 1937** Workers began to acquire credits toward old-age insurance benefits. Employers and employees became subject to a tax of one percent of wages on up to $3,000 a year.

**August 10, 1939** The President signed the Social Security Amendments of 1939.

* The program was broadened to include dependents and survivors' benefits.
* Payment of monthly benefits was advanced to 1940.
* Benefits payable in early years of the program were increased.
* Payroll tax rate increases were deferred.
* Workers over age 65 were permitted to contribute and qualify.

**January 31, 1940** Ida M. Fuller became the first person to receive an old-age monthly benefit check under the new Social Security law. She paid in $24.75 between 1937 and 1939 on an income of $2,484. Her first check, dated January 31, was for $22.54.

**January 1, 1950** The old age and survivors insurance contributions rates were increased from 1 percent to 1.5 percent each for employers and employees.

**August 28, 1950** The President signed the 1950 Social Security Amendments. This legislation:

* extended coverage under the old-age and survivors insurance program to about 10 million more persons;
* it liberalized the eligibility conditions;
* it improved the retirement test;
* it provided wage credits of $160 a month for military service from September 1940 to July 1947;
* it increased benefits substantially;
* it raised the wage base for tax and benefit computation purposes;
* it provided a new contribution schedule;
* and it eliminated the 1944 provision authorizing appropriations to the trust fund from the General Treasury.

**September 1950** Benefits began to be paid to the dependent widower, dependent husband, wife under 65 with a child in her care, and to a divorced wife.

**January 1, 1951** The old age and survivors insurance contribution rate of 2.25 percent of earnings became effective for all self-employed. The new old age and survivors insurance payroll tax wage base of $3,600 also went into effect.

**July 18, 1952** The Social Security Act of 1952 was signed into law by President Truman.

* It increased benefits under the old-age and survivors insurance program.
* It also extended the period of wage credits for military service through December 31, 1953;
* it liberalized the retirement test and raised the retirement test from $50 to $75 a month.
* Finally it changed, for a two year period, the grant formula for public assistance payments to make additional funds available to the States.

**January 1, 1954** Old-age and survivors insurance contribution rates increased to two percent each for employers and employees and three percent for the self-employed.

**September 1, 1954** The Social Security Act was amended to extend old-age and survivors insurance coverage to

* self-employed farmers,
* self-employed members of specified professions,
* additional farm and domestic employees;
* on a voluntary group basis to members of State and local Government retirement systems; and
* through election by individual ministers and members of religious orders.

**January 1, 1955** The wage base of $4,200 went into effect for the old age and survivors insurance payroll tax.

**August 1, 1956** The Social Security Act was amended

* to provide monthly benefits to permanently and totally disabled workers aged 50-64;
* to pay child's benefits to disabled children aged 18 or over of retired or deceased workers, if their disability began before age 18;
* it lowered to age 62 the retirement age for widows and female parents.

**August 1, 1956** The Servicemen's and Veterans' Survivor Benefits Act amended the Social Security Act by extending regular contributory coverage under old-age and survivors insurance to members of the uniformed services on active duty after 1956. Military service wage credit provisions were extended to the end of 1956.

**August 3, 1956** Public Law 973 was signed. It established a system of survivor benefits for Federal judges and provided for payment of annuities to widows and dependent children of judges.

**November 1956** Social Security retirement Benefits became payable to women at age 62.

**January 1957**

* The first disability payments were paid under OASDI, when benefits for this month went to retired or deceased workers' dependent children aged 18 or over, where a permanent and total disability had begun before age 18.
* The increase in OASDI contribution rates became effective; 2 1/4 % each for employers and employees and 3 3/8% for self-employed.

**July 1957** Monthly disability benefits first became payable under OASDI to insured workers aged 50-64.

**August 30, 1957**

* The Social Security Act was amended to facilitate OASDI coverage for employees of interstate instrumentalities and State and local government employees in certain States.
* This legislation also provided for benefits, in all cases, to aliens living outside the United States who were survivors of servicemen.
* It revised dependents' eligibility requirements; postponed the deadline for ministers to elect coverage as self-employed, and specified whether certain remuneration of ministers was to be considered as earnings.

**August 28, 1958** The Social Security Act was amended

* to increase benefits and provided benefits for dependents of disabled worker beneficiaries;
* raised to $4,800 the amount of earnings taxable and creditable for benefit purposes,
* set a new schedule for contribution rates,
* extended coverage and made numerous other changes in Title II.

**September 1958** Benefits became payable to Disability Insurance Benefit dependents.

**January 1, 1959**

* An increase in Old-Age, Survivors and Disability Insurance contribution rates was raised to 2.5% each for employers and employees and to 3.75% for the self-employed.
* The OASDI wage base was set at $4,800.

**August 18, 1959** Public Law 86-168 was approved. It provided social security coverage for persons who first entered after December 31, 1959, the employ of Federal land banks, Federal intermediate credit banks, and banks for cooperatives.

**January 1, 1960** An increase in OASDI contribution rates became effective as 3% each for employers and employees and 4.5% for the self-employed.

**September 13, 1960** The Social Security Amendments of 1960 were enacted. Old-age and survivors' insurance was amended to provide disability insurance benefits to disabled workers of all ages and to their dependents; the retirement test was liberalized, as well as were eligibility requirements.

**September 1960** Lump-sum death payments became payable to funeral homes. Benefits became payable to de facto spouses and their children.

**November 1960** Benefits became payable to the disabled at any age.

**June 30, 1961** The Social Security Amendments of 1961 were signed by President Kennedy. The Act was amended: to permit male workers to elect early retirement age 62; to increase minimum benefits payable; to liberalize the benefit payments to aged widow, widower, or surviving dependent parent; and to liberalize the retirement test and eligibility requirements.

**January 1962** The social security payroll taxes rose to 3.125% for employee and employer, with the self-employed to pay 4.7%.

**January 1, 1964** OASDI payroll tax rates of 3.625% each for employers and employees and 5.4 % for the self-employed went into effect.

**July 30, 1965** The Social Security Act and the Railroad Retirement Act were amended to liberalize cash benefits, the retirement test, and the definition of disability under old age, survivors, and disability insurance.

**September 1965** Beneficiaries of the old-age, survivors and disability insurance program began receiving a lump sum payment representing a 7% increase in benefits retroactive from January 1, 1965.

**September 1, 1965** Benefits were made payable to a divorced wife (married 20 years) and to dependents.
**September 1965** Reduced benefits were made payable to a widow at age 60.

**March 15, 1966** The Tax Adjustment Act of 1966 was signed. It provided for payment of cash benefits under OASDHI for all persons aged 70 or over even if they lack insured status; it required non-farm self-employed to make estimated payments of their Social Security taxes on a quarterly basis.

**January 2, 1968** President Johnson signed into law the 1967 Amendments to the Social Security Act. In addition to a 13% increase in benefits, the measure made changes in the minimum benefit, the retirement test, in disability benefits, coverage, hospital and Medicare insurance and increased the earnings base from $6,600 to $7,800.

**February 1, 1968** Effective this date, a female worker who was fully insured at the time of death, disability, or retirement was no longer required to be also currently insured at such time in order for: (1) a child to be deemed dependent on her (and thus able to become entitled to monthly benefits without establishment of actual dependency); or (2) a dependent husband or widower to be able to become entitled to monthly benefits. Also effective this date, reduced benefits were made payable to disabled widows (and disabled surviving divorced wives at ages 50 to 59) and to dependent disabled widowers at ages 50 to 61.

**January 1, 1969** The increased tax rate for Social Security became effective. The rate was raised from 4.4% for the earnings base of $7,800 to 4.8%. The rate for self-employed persons was raised from 6.4% to 6.9%.

**December 30, 1969** President Nixon signed the Tax Reform Act of 1969. Included as Title X were increases in Social Security benefits. These amendments provided for a 15% increase on Social Security monthly cash benefits effective for months after December 1969.

**July 1, 1972** President Nixon signs into law P.L. 92-336 which authorized a 20% cost-of-living allowance (COLA), effective 9/72, and established the procedures for issuing automatic COLAs each year, beginning in 1975.

**October 30, 1972** President Nixon signed the Social Security Amendments of 1972 (Public Law 92-603). The law liberalized several of the cash benefit provisions, made substantial changes in Medicare, revised the contribution schedule, amended some coverage provisions, and established a new Federal security income program for the needy aged, blind and disabled (the SSI program).

**March 1977** The Supreme Court ruled, 5-4, in Califano versus Goldfarber, that dependency requirements for widowers but not for widows was unconstitutional. The Supreme Court, in Califano versus Webster, held that the formula for computing retirement benefits for male workers prior to 1975 violated the equal protection provision of the Constitution.

**December 20, 1977** The Social Security Amendments of 1977 were signed by President Carter. This legislation was designed to restore the financial soundness of the Social Security system into the 21st century, and making future benefits and costs much more predictable.

**June 9, 1980** President Carter signed the Social Security Amendments of 1980. Chief changes: a more stringent maximum family benefit calculation; greater work incentives for disabled Social Security and SSI beneficiaries; and increased authority given the Secretary of HHS to establish, through regulations, performance standards and administrative procedures to be met by the States, including the authority to overturn State disability determination decisions.

**August 13, 1981** The Omnibus Budget Reconciliation Act of 1981 made major changes in Social Security, SSI, AFDC and other programs affecting SSA. These included: a phasing out of student's benefits; stopping young parents benefits when a child reached 16; limiting the lump-sum death payment; retaining the earnings test at age 72 through 1982, after which the exempt age would be 70; imposing a disability megacap offset; introducing retrospective accounting for SSI benefits; and changes in the minimum benefit.

**December 29, 1981** President Reagan signed legislation which, among other changes: restored the minimum Social Security benefit; provided the trustees of the various trust funds with the authority to borrow from each other through December 1982; made changes in sick pay reporting; and increased the penalties for misuse of the Social Security number; the reporting of death notices, etc.

**April 20, 1983** President Reagan signed into law the Social Security Amendments of 1983.

* Mandatory Social Security coverage of federal employees hired after December 31, 1983.
* Mandatory Social Security coverage of non-profit employees hired after December 31, 1983.
* Prohibits state and local governments from terminating existing agreements providing for employee Social Security coverage.
* Gradually increases Full Retirement Age from 65 to 67.
* Gradually increases delayed retirement credits.
* Increases OASDI payroll tax rate.
* Subjects Social Security benefits to income tax, and transfers the tax collected to the Trust Funds.
* Provides continuing benefits for certain divorced and widowed beneficiaries who remarry.
* Makes many spousal and survivor benefits gender neutral.

**June 6, 1986** President Reagan signed the Federal Employees' Retirement System (FERS) Act, which establishes Social Security coverage for federal employees hired after December 31, 1983.

**December 22, 1987** Additional categories of compensation become covered, including certain agricultural worker payments, tips, etc.

**November 5, 1990** President Bush signed Omnibus Budget Reconciliation Act of 1990, which added coverage for certain state and local government employees.

**August 10, 1993** President Clinton signed the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66), which increased the portion of Social Security benefits subject to income taxation.

**March 29, 1996** President Clinton signs H.R. 3136 into law, dramatically raising the earnings limits under the Social Security retirement test, and eliminating entitlement to Social Security or SSI disability benefits based solely on drug addiction or alcoholism.

**August 22, 1996** President Clinton signed the "Personal Responsibility and Work Opportunity Reconciliation Act of 1996." This "welfare reform" legislation terminated SSI eligibility for most non-citizens.

**August 5, 1997** President Clinton signed H.R. 2015, *The Balanced Budget Act of 1997*, into law. This law restores SSI eligibility to certain cohorts of non-citizens whose eligibility otherwise would be terminated under the "welfare reform" of 1996.

**December 17, 1999** President Clinton signed the Ticket to Work and Work Incentives Improvement Act of 1999 (P.L. 106-170). The legislation provides for a program to allow SSDI and SSI recipients to obtain vocational rehabilitation and employment services.

**April 7, 2000** President Clinton signed the Senior Citizens' Freedom to Work Act of 2000 (P.L. 106-182) at a White House Ceremony. The Act eliminated the Retirement Earnings Test for beneficiaries at or above Full Retirement Age.

**November 2, 2015** The President signed a law which allocates funds from the Old-Age and Survivors Insurance (OASDI) trust fund to the Disability Insurance (DI) trust fund to ensure payment of full disability benefits into 2022; without such a reallocation the DI trust fund would have been depleted in December 2016.

**The Looming Insolvency of the Social Security System**

(Source: 2023 OASDI Trustees Report, https://www.ssa.gov/oact/TR/2023/trTOC.html)

**Size of the Social Security System**

* In 2022, the Social Security system paid benefits to 66 million people.
* In 2022, 181 million people had earnings covered by the system.
* At the end of 2022, the system had assets of $2,830 billion.
* In 2022, the system had income of $1,222 billion and expenditures of $1,244 billion.

**Short Range Projections**

* In 2010, expenditures began to exceed non-interest income of the system.
* In 2021, expenditures began to exceed all income of the system, and the Trust Funds began to shrink. This hasn’t happened since 1982.

**Long Range Projections**

* On a combined basis, using the Trustees’ intermediate assumptions, the Trust Funds are projected to be exhausted in 2034 (2033 for the OAS fund separately).
* Thereafter, payroll taxes will be sufficient to pay about 80% of benefits in 2034, shrinking further to 74% by 2097. (That breaks down, in 2034, to 77% of old age and survivor benefits and 100% of disability benefits.)
* In light of the uncertainty of their assumptions, the Trustees analyzed 5,000 randomly generated possible future scenarios (a “Monte Carlo” simulation). Following that analysis, the Trustees are 95% confident that the Trust Fund will be exhausted between 2031 and 2040.

**Causes of Looming Insolvency**

* Retirement of baby boom generation
* Longer life expectancies
* Lower birth rates
* The ratio of (contributing) workers to (consuming) beneficiaries is dropping:
	+ It was stable at 3.2 to 3.4 between 1974 and 2008
	+ It dropped during the recession
	+ It has gradually declined due to long-term demographic changes
	+ It is projected to level out at about 2.3 in 2038, with a gradual decrease thereafter due to lengthening life expectancies
* As a result, the cost of current benefits as a percentage of current payroll is expected to increase from 14.53% of payroll (in 2023) to 18.47% of payroll in 2080, and 17.83% of payroll in 2100.
* And the cost of current benefits as a percentage of GDP is expected to increase from 5.2% in 2023 to 6.0% by 2040.

**Trustees’ Hypothetical One-Dimensional Solutions to Insolvency**

* Immediately increase the payroll tax by 3.44 percentage points
* Immediately decrease scheduled benefits by 21.3% for all current and future beneficiaries
* Immediately decrease scheduled benefits by 25.4% for all future beneficiaries
* Defer action until 2034 (year of exhaustion), and then increase the payroll tax by 4.15 percentage points
* Defer action until 2034, and then decrease benefits by 25.2% for all current and future beneficiaries

**Another View: Congressional Budget Office Report**

(Source: https://www.cbo.gov/system/files/2023-06/59184-SocialSecurity)

The Congressional Budget Office also issues periodic reports on the solvency of the Social Security system. Since they have a slightly different set of predictions for economic inputs such as population growth, wage growth, future interest rates, and GDP growth, their projections differ from those of the Trustees. The CBO is somewhat more pessimistic than the Trustees about the future solvency of the system. For example, the CBO projects that payroll taxes would have to increase by 1.66 percentage points more than projected by the Social Security trustees, i.e., 5.1 percentage points rather than 3.44 percentage points.

**Comparison to 1941 Trustees’ Report**

(Source: <https://www.ssa.gov/oact/TR/historical/1941TR.html>)

The first required Trustees’ Report was issued in 1941. Its projection of the Trust Fund’s long-term solvency was limited to two examples using optimistic and pessimistic economic assumptions, taken from hearings conducted during Social Security’s initial enactment. Optimistic assumptions led to solvency for the indefinite future. Pessimistic assumptions led to insolvency within 25 years.

**Some Options for making the Social Security System Solvent**

(Source: https://www.ssa.gov/OACT/solvency/provisions/summary.pdf)

For each of these options, consider which beneficiaries should be affected: (i) all beneficiaries, (ii) all beneficiaries except current Social Security recipients, or (iii) all beneficiaries except current Social Security recipients and those nearing retirement age.

**Cost of living adjustments**

* Change the cost of living index used to adjust benefits for price inflation.
	+ Use “chained CPI.”
	+ Use a special retired person’s CPI (worsens insolvency).
* Reduce the cost-of-living adjustment by, e.g., one or one-half percentage point.
* Grow benefits by price inflation rather than average wage increases.
	+ Apply this change to everyone.
	+ Do not apply this change to those with low income.
* Eliminate cost-of-living adjustments for those with high adjusted gross income.

**Benefit adjustments**

* Reduce benefits by the percentage increase in life expectancies since the effective date of enactment.
* Reduce the benefit formula across the board.
* Reduce the benefit formula by a greater degree for those with higher income.
* Increase the number of years over which wages are averaged, e.g., from 35 to 40.
* Reduce the number of drop-out years.
* Increase the number of drop-out year for those caring for young children (worsens insolvency).
* Impose an across the board benefit reduction of, e.g., 5%.
* Improve minimum benefits (worsens insolvency):
	+ Increase to 120% of poverty level for an aged individual.
	+ Lesser increase for those with less than 30 years of coverage.
	+ Count child care years as a year of coverage.
* Improve benefits for older beneficiaries, e.g., 85 or older (worsens insolvency).
	+ Reduce the benefit increase for those with high income.
* Count child-care years in benefit formula (worsens insolvency)

**Retirement age adjustments**

* Gradually increase Full Retirement Age, e.g., to 68.
* Build in an automatic gradual increase in Full Retirement Age as life expectancies increase.
* Give workers the option to reduce their payroll tax rate in exchange for an older Full Retirement Age.
* Gradually increase the Full Retirement Age as well as the maximum delayed retirement age, currently 70.
* Gradually increase the surviving spouse’s Full Retirement Age.
* Gradually increase the earliest retirement age, currently age 62 (worsens insolvency).
* Exempt low income workers from Full Retirement Age increases.
* Convert disability beneficiaries to retirement beneficiaries at Earliest Retirement Age.

**Family benefit adjustments**

* Gradually reduce the current spouse benefit from 50% to, e.g., 33%.
* Put a cap on the current spouse benefit.
* Put a cap on retired workers’ children’s benefit.
* Continue children’s benefits until age 22 if still in school (worsens insolvency).
* Give married claimants a, e.g., 75%, joint and survivor annuity that would continue after death in addition to spouse’s own benefit, actuarially adjusted to be equivalent to current benefit (no impact on solvency).

**Payroll tax rate adjustments**

* Immediately increase the payroll tax rate from 12.4% (half employee, half employer) to 16.2%
* Gradually increase the payroll tax rate, e.g., by 0.1 percentage point per year.

**Taxable wage base adjustments**

* Eliminate the cap on taxable wages ($168,600 in 2024), but don’t count wages above the cap in computing benefits.
* Eliminate the cap on taxable wages ($168,600 in 2024), and count wages above the cap in computing benefits.
* Retain the current cap on taxable wages ($168,600 in 2024), and tax wages above $250,000.
* Tax wages above the current cap at a lower tax rate, e.g., 3%.
* Phase in the elimination of the cap on taxable wages.
* Immediately increase the cap on taxable wages to the point where 90% of covered workers are under the cap.
* Gradually increase the cap on taxable wages.
* Increase or eliminate the cap on taxable wages only for the employer portion of the payroll tax.

**Adjust categories of covered workers**

* Cover all newly hired state and local government employees.
* Exempt workers with 180 quarters (45 years) of coverage (worsens insolvency).

**Adjust categories of covered earnings**

* Subject the cost of employer health insurance to payroll tax.
* Subject employee contributions to flexible benefit plans (e.g., Flexible Spending Accounts) to payroll tax.
* Subject investment income to a 6.2% tax.

**Adjust Trust Fund investments**

* Invest a portion, e.g., 40%, of the Trust Funds in equities.

**Adjust income taxation of benefits**

* Subject Social Security benefits to income taxation in the same manner as other pension income.
* Increase the income threshold (currently $25,000) for taxing Social Security benefits (worsens insolvency).
* For high income taxpayers, tax the remaining 15% of Social Security benefits.

**Other ideas**

* Allow employees to purchase additional Social Security benefits with a portion of their 401(k) plan balances
* Establish a Value Added Tax, e.g., of 3%, and dedicate some of its revenues to Social Security.
* Establish a carbon tax and dedicate some of its revenues to Social Security.
* Establish a financial transactions tax and dedicate some of its revenues to Social Security.
* Establish a millionaires’ income tax and dedicate some of its revenues to Social Security.
* Increase the estate tax and dedicate some of its revenues to Social Security.
* Increase legal immigration of working age emigrants.

**Make reforms permanent**

* Build in a periodic, e.g., every 3 years, automatic adjustment to the payroll tax to the extent necessary to bring the system into actuarial balance over the long term (i.e., 75 years).
* Build in a periodic, e.g., every 3 years, automatic adjustment to the benefit formula to the extent necessary to bring the system into actuarial balance over the long term (i.e., 75 years).

**Summary of Social Security 2100 Act**

A new version of the Social Security 2100 Act was introduced into the House of Representatives on July 12, 2023. It contains the following key provisions:

* Increases all Social Security benefits by increasing the first-tier percentage from 90% to 93%.
* Increases the annual cost of living adjustment by using an index designed for elderly consumers.
* Increases the minimum Social Security benefit payable to low income workers (for those retiring in next ten years only).
* Provides an alternative widow/widower’s benefit for two-earner couples of 75% of combined Social Security benefits (for those retiring in next ten years only).
* Provides a phased in 5% increase in benefits beginning 20 years after retirement (for those retiring in next ten years only).
* Provides earnings credit for parents staying home to care for children (for those retiring in next ten years only).
* Reduces income taxation of Social Security benefits by increasing the threshold Adjusted Gross Income at which benefits become partially taxable, to $50,000 (for single taxpayers) and $100,000 (for married taxpayers filing jointly), an increase from the current thresholds of $25,000 and $32,000 under current law.
* Currently, only wages and self-employment income up to the Taxable Wage Base ($168,600 in 2024) is subject to FICA or self-employment tax.
	+ The bill would subject wages and self-employment income over $400,000 to FICA or self-employment tax.
	+ Workers would be given credit for newly taxed high income by creating a new 1% tier in the benefit calculation.
* Apply a new 12.4% Net Investment Income tax on Net Investment Income in excess of $400,000.
* The Old Age and Survivors Insurance Trust Fund would be merged with the Disability Insurance Trust Fund.
* (A prior version of this Bill would have phased in a FICA rate increase, but this version doesn’t do that.)

The Office of the Chief Actuary of the Social Security Administration projects that if the bill is enacted, the Trust Fund would be solvent for an additional 32 years (to 2066). The Trust Fund’s long-range actuarial deficit would drop from 3.61% of payroll to 0.47% of payroll.

**Social Security Works proposal**

Social Security Works is a non-profit organization whose mission is to safeguard the economic security of those dependent on Social Security. It has proposed a plan (called the Social Security Works All Generations Plan) to strengthen Social Security, as detailed in the book “Social Security Works for Everyone!” by Nancy J. Altman and Eric R. Kingson. Highlights of the plan include:

* A meaningful increase in benefits, subject to a $8,200/month maximum benefit, as follows:
	+ 95% of first $1,000 of AIME
	+ 65% of next $4,000 of AIME
	+ 45% of remaining AIME
* Increase age 62 early retirement benefit
* Adoption of a more generous CPI-Elderly cost of living adjustment
* An increased minimum benefit of up to 125% of the federal poverty level
* Liberalize disability definition for older workers
* Gradually eliminate the maximum Taxable Wage Base, and include these higher earnings in the benefit formula (up to a maximum benefit of $8,200/month
* Gradually increase the payroll tax rate on employees and employers by 1.5 percentage points each
* Gradually invest 40% of the Trust Funds in equities
* Subject employee contributions to flexible benefit plans to Social Security tax
* Create additional revenue sources dedicated to the Social Security Trust Fund:
	+ 0.5% financial transaction tax
	+ Eliminate tax preference for long-term capital gains
	+ Return estate tax to 2000 levels
* Combine the OASI Trust Fund and the DI Trust Fund
* Double legal immigration
* Add additional family benefits as follows:
	+ Up to 12 weeks of paid family leave on the birth of a child, illness, or illness of a family member
	+ Up to 5 years of Social Security coverage credit for staying home to care for a young child
	+ Provide student benefits up to age 22 for the child of a deceased or disabled worker
	+ A new child benefit of $2,000 on the birth or adoption of a child
	+ Increase benefits for disabled adult children

**George W. Bush’s partial “privatization” proposal**

* For workers currently under age 55, up to 4% of wages, up to the Taxable Wage Base, and not to exceed $1,000, could be diverted from FICA tax and placed into a private account for investment.
* Traditional Social Security benefits would be cut in some fashion to reflect reduced contributions.
* The proposal would have little or no effect on the overall solvency of the Social Security system, which would therefore still need fixing.

**My Solution to Social Security**

**Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

How would you reform Social Security? Be as specific as you like.

1. \_\_\_ Nothing. Leave it as is, and pay partial benefits when the trust fund runs dry.
2. \_\_\_ Repeal it altogether
3. \_\_\_ Pay unfunded benefits from general revenues
4. \_\_\_ Adopt the Social Security Works All Generations Plan
5. \_\_\_ Adopt the George W. Bush privatization plan
6. \_\_\_ Make it actuarially sounder in the following ways: (Go to [www.crfb.org/socialsecurityreformer/](http://www.crfb.org/socialsecurityreformer/). Make sure to click on all four tabs.)

**Benefit Formula**

1. \_\_\_% increase/decrease in benefits
2. \_\_\_ Slow benefit growth as follows
3. \_\_\_For top 70% of earners
4. \_\_\_For top half of earners
5. \_\_\_For top 20% of earners
6. \_\_\_Increase retirement age
7. \_\_\_From 67 to 68
8. \_\_\_Index age to longevity
9. \_\_\_Raise age to 69, then index to longevity
10. \_\_\_Modify COLAs
11. \_\_\_Index COLAs to chained CPI
12. \_\_\_Index COLAs to chained CPI and means test them
13. \_\_\_Index COLAs to CPI-E

**Other Benefits**

1. \_\_\_Reform auxiliary benefits
2. \_\_\_Tighten disability eligibility requirements
3. \_\_\_ Limit spousal benefits for high earners
4. \_\_\_ Expand benefits for widows/widowers
5. \_\_\_Enact benefit enhancements
6. \_\_\_Minimum benefit of 125% of poverty level
7. \_\_\_Bump-up for very old beneficiaries
8. \_\_\_Increase benefits across the board
9. \_\_\_Other benefit changes
	1. \_\_\_Base benefits on highest 38 years
	2. \_\_\_Means-test benefit for high earners
	3. \_\_\_Apply benefit formula to annual earnings

**Revenues**

1. \_\_\_% increase/decrease in payroll tax rate
2. \_\_\_Increase Taxable Wage Base
	1. \_\_\_Tax all wages without limit
	2. \_\_\_Subject 90% of wages to payroll tax
	3. \_\_\_ Tax all wages above $400,000
3. \_\_\_Raise additional revenue
	1. \_\_\_Cover newly hired state and local employees
	2. \_\_\_Apply payroll tax to Cafeteria Plans
	3. \_\_\_Increase taxation of benefits
4. Invest in the stock market
	1. \_\_\_Diversify the trust fund to increase returns
	2. \_\_\_Divert 2% of payroll tax to carve-out accounts
	3. \_\_\_Allow contributions into add-on accounts

Under your approach, what percentage of the 75-year shortfall has been eliminated? \_\_\_\_\_\_

1. Other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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