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Notch Commission Reports Social Security Benefits Equitable

Social Security has not treated "notch babies" (those born between 1917 and 1921) unfairly, according to the Commission on the Social Security Notch Issue. To reach its conclusion, the 12-member Commission met seven times (including three public hearings) between April and December 1994, heard a broad range of testimony, requested and examined technical analyses, and spent hundreds of hours reviewing issues.

The blue-ribbon, bipartisan Commission reported to Congress in late December that "benefits paid to those in the 'notch' years are equitable, and no remedial legislation is in order." The members noted they ". . . appreciate the depth of feeling and the sincerity of those who seek relief from Congress for what they truly perceive as an unfairness."

How Notch Emerged

The "notch issue" emerged shortly after Congress passed Social Security amendments in 1977. The amendments were designed to correct a flaw in the benefit formula that had been part of the Social Security amendments of 1972. The 1972 provisions created automatic cost-of-living adjustments to help Social Security benefits keep pace with inflation. However, the flawed benefit formula, when combined with the rapid inflation of the 1970s, led to unforeseen sharp benefit increases, and millions of beneficiaries born after 1910 began receiving payments far exceeding what Congress intended. This situation threatened the solvency of the Social Security trust funds.

In 1977, Congress corrected the flaw, but it declined to reduce benefits for those already receiving them. Nor did it remove the "windfall" for people who had retired or would be eligible to retire through 1978. According to the Commission report, ". . . the purpose of the 1977 legislation was to reduce benefits for all future beneficiaries, and it has generally done that."

Result Of Change

As a result of the 1977 provisions, beneficiaries born in 1917-21 generally receive lower Social Security retirement benefits than beneficiaries born before them. Their benefits are also slightly lower than those of beneficiaries born after them—workers whose benefits reflect the substantial increase in the rate of wage growth in the mid-1980s.

The Commission's report notes that "when displayed on a vertical bar graph, those benefit levels form a kind of v-shaped notch, dropping sharply from 1917 to 1921, and then rising again. . . . To the extent that disparities in benefit levels do exist, they exist not because those born in the 'Notch' years received less than their due; they exist because those born before the 'Notch' years . . . continue to receive substantially inflated benefits. This disparity has created an understandable perception of unfairness."

The Commission's report concludes that it "does not believe that benefit increases for people born after January 1, 1917, are appropriate, or that they can be justified."

The Commission further says it ". . . would not be appropriate at this time to take action reducing benefits, or their growth, for those individuals, all age 78 or older, who benefited from the flawed 1972 benefit method. Such action would not result in higher benefits for those in the 'notch' years."

In commenting on the report, Shirley Chater, Commissioner of Social Security, said, "I applaud the Notch Commission for their bipartisan efforts over the past year to reach a consensus on what recommendations to make to the Congress regarding a very emotional issue to some elderly Americans–the Social Security 'notch.' I'm certain they have heard from many senior citizens–as I have in my travels across the country–who sincerely believe they have been cheated out of benefits and are due legislative relief. It is my genuine hope that this bipartisan report will not only help seniors to better understand the 'notch' issue but also to realize that legislative relief is neither necessary nor desirable."

Copies Available

Copies of the report are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9325. For telephone orders, call (202) 512-1800 weekdays between 8 a.m. and 4:30 p.m. (EST); the fax number is (202) 512-2250. Ask for the *Final Report on the Social Security "Notch" Issue*. The stock number is 017-001-00523-1.

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