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HOW SOCIAL? HOW SECURE?

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(A POLICY & PRACTICE PUBLICATION)

Edited by
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and
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INSTITUTE OF INDUSTRIAL RELATIONS (Los Angeles).
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INTRODUCTION

Under a mandate from the California state legislature that dates back to 1946, the Institute of Industrial Relations has the responsibility of assisting the state and its citizens in better understanding the problems of industrial relations. The term, "industrial relations" has been broadly defined as all aspects of the relations among people who work, their jobs and their employers. One of the most important areas in those relations is the provision of economic, social and psychological security for people who have reached the end of their active working life.

Historically, one of the most critical problems has been providing economic security including paying for services, such as health care, which have paramount importance at that point in a person's life.

Over the last forty years, the basic means of providing this security in the United States has been through the Social Security Act. The system developed to implement the Act ("Social Security") has generally performed its function acceptably, but has become the subject of much controversy during the last few years regarding its financing, its level of benefits, and its coverage.

In 1976, the Institute of Industrial Relations at UCLA held a conference, "Social Security: How Social? How Secure? " where a distinguished panel of experts discussed the above-mentioned controversial aspects of the Social Security system. This volume contains papers presented by the speakers at this conference.

Dr. Yung-Ping Chen, Associate Professor of Economics at UCLA, provides an overview and introduction to the whole problem in his paper, "Aging of the Population and Social Security." He examines the implications of the proportion as well as number of old persons, according to population projections. He considers Social Security, which for the most part is care and support for old-age dependents, from the broad perspective of total dependency, including "young-age dependents" as well as "old-age dependents." Since low fertility rates mean fewer children, there may be less public expenditure by the working population for young-age dependents. Therefore, the increase for old-age dependents may not necessarily mean a larger *total* public expenditure by the working population for *all* dependents, young and old. It may mean that society will be buying less baby food but more Geritol. Dr. Chen then discusses the implications of such a potential shift in public expenditure patterns.

The papers which follow discuss issues and options in the Social Security benefit structure.

Robert J. Myers, Professor of Actuarial Science, Temple University, looks at "Disability Benefits and Medicare Benefits." In his own approach, he uses part fact and part opinion in analyzing the options for disability benefits and Medicare-type programs. He advocates that Social Security be only responsible for part of the needed economic security, and that people at middle and higher income levels should be urged to provide the rest either individually or through collective actions by their employers or unions.

Tish Sommers, the next author, provides a counterpoint to the actuarial expertise of others. As coordinator of the Task Force on Older Women of the National Organization for Women, she is also an expert, but, as she stressed, one with an emphasis on activism. In her paper, "Differential Treatment of Individuals," Ms. Sommers criticizes the existing Social Security system as one of the worst examples of institutionalized sexism in our society. The basic philosophies of the system, says Ms. Sommers, are at fault because they assume Social Security is an earning replacement system, under which the man is the breadwinner, the woman the dependent homemaker, and the sole financial base is a payroll tax. Ms. Sommers discusses the institutionalized shortcomings and discrimination in the Social Security system and evaluates the philosophical principles underlying them.

The next paper is that of E. Allen Arnold, Actuary of the Wyatt Company, San Francisco. In "Public Employment and Social Security," Mr. Arnold presents arguments to support the proposition that universal Social Security coverage is desirable and that many public employees have withdrawn from the Social Security system without having thoroughly studied the withdrawal question. Four aspects of universal coverage are considered: the interests of public employees and employers, respectively; the financial integrity of the Social Security system; and overall national policy. On the withdrawal question, Mr. Arnold presents several sets of factors which a public employer should consider before deciding on withdrawal from Social Security, and usually doesn't.

A portion of the conference was devoted to papers discussing issues and options in cost and financing of Social Security.

In his paper, "The Cost of Social Security: 1976-2050," A. Haeworth Robertson, Chief Actuary of the Social Security Administration, Baltimore, argues that although the Social Security system is confronted by serious potential long-range problems, as heralded throughout the press and Congress, there is ample time in which to solve them. While conceding the serious fiscal problems, Mr. Robertson suggests there are adequate and reasonable financial solutions, which he does not consider particularly political.

Bert Seidman, Director, Department of Social Security, AFL-CIO, presents "The Financing of Social Security." Mr. Seidman agrees with Mr. Robertson that there is a long-term problem which can be handled. He also notes that there is a short-term problem confronting Social Security, and suggests several ways of analyzing and remedying the problem.

In his second paper, "Problems in Social Security Financing," Professor Robert J. Myers applies general actuarial principles to Old-Age, Survivors and Disability Insurance to explain the causes of the present problems and some possible solutions. He discusses both short-range and long-range financing solutions and the complex causes of actuarial deficits.

The final paper of this volume, "Reforms of Social Security in Congress," is by Edward Howard, General Counsel, Select Committee on Aging, United States House of Representatives. Mr. Howard analyzes the various modifications of the Social Security Act that have been under consideration--liberalization of earnings, inclusion of medical appliances, encouraging longer labor force participation, among others--and evaluates their chances of approval by Congress.

Since the conference was held, both houses of Congress have deliberated on a large number of bills. On December 20, 1977, President Carter signed into law a measure which calls for increases in the Social Security tax rate and covered earnings in the years to come.

Starting with January 1, 1978, the tax rate on covered workers is 6.05 percent on earnings up to $17,700, with employers paying matching amounts. For the self-employed, the rate is 8.1 percent on earnings up to $17,7000. These rates, higher than those in 1977, were legislated increases built into the prior law.

Under the new law, in 1979 the tax rate will be 6.13 percent on earnings up to $22,900, for the worker and his/her employer respectively. Both tax rate and covered earnings will rise in the future. By 1987, the rate will be 7.15 percent on earnings up to $42,600.

The new law will not take effect until January 1979, but amendments to it have already been proposed in Congress. For example, on February 6, 1978, a group of five Congressmen and two Senators introduced a bill that would cut the tax rate by almost one-third by removing Medicare and disability insurance from Social Security tax financing. This change would keep the tax rate below this year's 6.05 percent for the next four decades. However, no change in scheduled increases in covered earnings would occur under this bill.

It is clear that the nation's Social Security system will undergo more modifications in the future. We hope that this volume will contribute toward an understanding of current and future changes, and of the debate surrounding them.

June 1978

Frederic Meyers
Director

AGING OF THE POPULATION AND SOCIAL SECURITY

YUNG-PING CHEN

In this talk I intend to provide an overview of the future as far as the Social Security mechanism is concerned. I should warn you that I am not suggesting concrete solutions. I am merely going to lay out what lies ahead for Social Security in terms of what the impact of the shifts in the population would be. These other true experts will be able to tell you much more about how we will cope with the changing population makeups in the country.

I would like you to turn to Table 1 (at the end of this article) so we can work through some of these numbers. It is a one-sheet handout listing dependency ratios in the United States in selective years 1975 to 2050. The median age of the American population is rising; the population in America is getting older and older. For instance, the median age of today is approximately 29 years of age. That is, one-half of the population are older than 29 and one-half younger than 29. The median age will keep increasing and, 75 years from now, in the year 2050, the median age will be 37--one-half of the country are older and the other half younger than 37 years of age. Incidentally, this might offer some consolation to anyone who is getting old or feeling older because other people are much younger. That worry can be lessened when many other people are also getting older.

Seriously, the population becoming older is not because of improved medical successes in prolonging life. The proportion of the population 65 and over is growing mainly because there will be fewer younger people born into the population. In other words, lower fertility rates in this country are mainly responsible for the projected increasing proportions of older people in the future.

Now, since there are going to be more and more older people, the problem of financial security in their retirement years becomes more and more important. Many people rightfully have been concerned with the burden of such support on the working people. This is, of course, an increasing problem because the older people, in number as well as in proportion, will grow to be a much larger one in the future. If you look at the number of older people as a percent of those in the working-age population, you will see it was 19.2 in 1975. This is the first number in the column labeled 1975 in the first row, under the "old-age dependency ratio." This means for each 100 persons in the age group 20 to 64 in 1975 there were 19.2 older people. This ratio in the year 2050, if you look across to the right of the page, is going to be 28.5 and this is a dramatic increase of more than 48% in the 75-year period.

This is a problem which might contain its own solution. Why? Let's look at the number of people in the younger ages, which is the second large block of numbers in the Table. The "young-age dependency ratio" is obtained by dividing the number of people under 20 by the number of people in the ages 20 to 64. In 1975, the ratio was 64.1%. That is, for every 100 persons in the working-age group, there were 64 persons under age 20. This ratio in the year 2050, if you look across the page, is going to go down to 48.7 and that means a reduction of 24% during the 75-year period.

The way I look at the problem of financing economic security of older people in the future is to examine the burden of supporting all the dependents--the old and the young--and if you do so, you come to the third block of numbers in the Table--"the total dependency ratio." This is simply a combination or a total of the old-age and young-age dependency ratios. At the present time (or in 1975), it is 83.3% and in the year of 2050, it will go down to 77.2. This is a reduction of 7% during the 75-year period. In other words, from the standpoint of the working people as a whole, the financial burden of supporting the old and the young together as implied by these numbers may not have to go up as troublesomely as many have projected.

While this is a hopeful sign about the future, one cannot say for certain that the problem in the future will be solved by having fewer young people as we have more old people. In other words, even though the future may be described as one in which we will be buying less baby food but more Geritol, the shift between Gerber food and Geritol may not be as simple as it may seem. One reason is that at the present time the support of older people is mainly by the social security system, and the social security system is operated at the federal level financed by the social security taxes. On the other hand, the support of the young is primarily carried at the state and local levels under education and other support programs. At the state and local levels, the taxes employed are property taxes, state income taxes, sales and excise taxes. So as I see it, the aging of the population will mean a great deal of shifting of the support money and programs from those in the youth-related areas to those catering to older people. What lies ahead, it seems to me, is a period in which many thoughtful academics and practitioners along with political figures must evaluate the impact of the changing age population on the tax system and spending system in the country so that the young and the old dependents will be supported as society deems desirable.

There is one other point that I would like to make. As I study the dependency problem in this country in terms of the old and the young, I am also struck by the "middle-age dependency" problem. So far, I have suggested to you the problems of old-age and young-age dependents. But when I look at middle-aged people, I'm struck by the rising number of people in the middle-age or working-age groups that is being supported under a variety of public programs because of different contingencies such as disability, unemployment and other programs. Professor Myers' remarks on disability will be relevant to this problem.

Finally, I'd like to take a historical view. If we look ahead, the tremendous increase in older people tends to get some offsets from the decrease in the number of younger people. What about the past? Let's look back to the history of this country, say, from 1940 to the present in terms of old-age dependency ratio and young-age dependency ratio. In the 30 years from 1940 to 1970, the old-age dependency ratio as defined before went up by 61.5%; that is almost a 62% increase. During those 30 years, we did not have the benefit of the offsetting phenomenon on the young-age dependency ratio; the young-age dependency ratio went up by 23.7% during the same period. As a result, the total dependency ratio went up by 30% between 1940 and 1970. So, if you look at the total burden on the working-age population or the working population, we simply bore a great deal of the increase, not only for young dependents but also for old dependents, from those three or four decades to now. In the future, we are going to have less of an increase on the old-age dependency ratio, and in addition, we are going to have a decrease in the young-age dependency ratio. It seems to me, in historical perspective, that we are in for a less difficult problem in the future than we had in the past. Therefore, I am hopeful about the future.

Table 1
DEPENDENCY RATIOS IN THE U.S. IN SELECTED YEARS, 1975-2050

Dependency Category	1975	1980	1985	1990	1995	2000	2025	2050
(1) Old Age Dependency Ratio (OADR)								
(a) $\frac{\text{Ages 65 and over}}{\text{Ages 20-64}}$ (%)	19.2	19.4	19.7	20.5	20.7	20.0	28.6	28.5
(b) Percent increase (+) in OADR over 1975 (%)	-	(+)1.0	(+)2.6	(+)6.8	(+)7.8	(+)4.2	(+)49.0	(+)48.4
(2) Young Age Dependency Ratio (YADR)								
(a) $\frac{\text{Ages 19 and under}}{\text{Ages 20-64}}$ (%)	64.1	56.8	53.0	53.0	53.5	51.9	49.4	48.7
(b) Percent decrease (-) in YADR from 1975 (%)	-	(-)11.4	(-)17.3	(-)17.3	(-)16.5	(-)19.0	(-)22.9	(-)24.0
(3) Total Dependency Ratio (TDR)								
(a) $\frac{\text{Ages 19 and under plus 65 and over}}{\text{Ages 20-64}}$ (%)	83.3	76.2	72.7	73.5	74.2	71.9	78.0	77.2
(b) Percent decrease (-) in TDR from 1975 (%)	-	(-)8.5	(-)12.7	(-)11.8	(-)10.9	(-)13.7	(-)6.4	(-)7.3

Note: Calculated from U.S. Bureau of the Census, Current Population Reports, Series P-25, No. 601, "Projections of the Population of the United States: 1975-2050, "U.S. Government Printing Office, Washington, D.C., 1975. This report contains three main alternative projections. The above ratios are based on Series II assumption about the ultimate level of cohort fertility, which is regarded by the Census Bureau as "appearing at this time to be a reasonable choice." The cohort fertility level (the average number of lifetime births per woman) assumed for Series II is 2.1; in contrast, for Series I, it is 2.7 and for Series III, 1.7.

DISABILITY BENEFITS AND MEDICARE BENEFITS

ROBERT J. MYERS

My remarks about issues and options regarding benefit structure and coverage of disability benefits, as well as Medicare benefits, will be partly fact and partly opinion. In other words, I hope to present the various options for both the disability benefits program and the Medicare programs. At the same time, I want to interject some of my own personal views about whether or not these are desirable options. And, since I am going to give you my views, in order that you can see what my biases are, let me just briefly tell you what my personal philosophy as to Social Security is. The Social Security program is a great thing. I believe in it very strongly. However, I also believe that it should not be expanded too greatly. It should play a certain role in the economic security field, but it should not play the *entire* role. I think that certainly people at the middle and higher income levels should provide a part of their economic security either individually or through collective action with their employers and unions.

Now that we have set the stage, let me first consider disability benefits and briefly mention what the present program is. In essence, monthly benefits are provided to disabled workers and, in certain instances, to disabled children and disabled widows. But the program is primarily for disabled workers, who have about a six and a half month waiting period. (That is no slip on my part. The law appears to say that it is a five month period, but actually it averages about six and a half months.) The definition of disability in the law is a very strict one. It relates to what might be called total and permanent disability, as compared to occupational disability. In other words, the definition in the law is that people should not be able to engage in any substantial employment because of their disability--and not that they cannot engage in their usual occupations. It is very difficult to administer disability programs, because the concept of being disabled is not nearly as precise as the concept of either death or attainment of retirement age. When unemployment is high, it is sometimes very difficult to determine whether a person is really disabled or whether that person is unemployed. Similarly, in times of high employment, some people who are truly disabled can, by making enormous efforts, work; then, if they become unemployed, they are still disabled, and they can go back on the disability roll.

The program is based on state determinations of disability. Congress, in its wisdom, decided that the determination of disability should be made locally. In practice, it is done in almost all states by the state vocational rehabilitation agency, with a subsequent review by the federal government of the determination. The level of the disability benefits can, in some instances, be quite high, especially when the individual has dependents. If a disabled worker has a spouse under age 62 and no children, only the disabled worker gets benefits, but if there is a spouse and children, then the benefit is almost doubled, and as such it can sometimes reach very high levels.

In fact, because of a technical error in the law, which has been known about for some years but has never been corrected, the disabled worker in his twenties or possibly early thirties, with a spouse and one or more children, can often get more in benefits than his most recent earnings. That, I think, is a very unsatisfactory situation. It might seem desirable that the individual has plenty of income, but the difficulty is that this can reduce incentives to return to work. People are probably better off recovering from their disability than "enjoying" both their disability and overly large monthly benefits.

What kind of criticisms are there about the disability program? They go both ways--some say the program is not liberal enough, while some say it is too liberal. Some say that the present definition is too restrictive and too severe. Some people assert that, to be disabled according to the Social Security Administration, you have to be practically on your deathbed. It is not quite that bad by any means, because there are now some two and one-half million people receiving disability benefits. But this is not necessarily true, because claims rejection rates are not always too meaningful. Anybody can apply for a disability claim--even you and I although we are in presumably good health could apply--but then the claim, of course, would be rejected. So, the rejection rates do not necessarily indicate severity of administration.

But how can a less restrictive definition of disability be formulated? One step that has been widely proposed is to put in an occupational definition of disability, instead of what might be called the permanent total definition, which is in the present law. Or there could be an occupational definition that begins at the age of 50 or 55, because persons can be expected to change their occupation that late in life.

I do not think that it is desirable to shift to an occupational definition of disability. It seems to me that it will create many problems because people will go on disability benefits when, in essence, they could still be useful and productive members of society. Also, I think that if an age limit is selected, this will cause difficulties as to persons who are just under that age and are really very disabled, but not enough to meet the definition. Certainly, an occupational definition would be unfair to people who are older and meet the occupational definition because they are a highly skilled person and cannot perform any occupation, yet are quite able to perform many other occupations that are well-paying ones.

Then, there are those who believe that the definition should be more restrictive, or at least that it should be administered according to the way in which it is written. In my view--and there have been a number of studies on this by the General Accounting Office and others--the administration of this disability provision by the Social Security Administration during the last few years has been very lax. It has not been administered according to the way Congress wrote the law. One of the problems perhaps has been the attitude of the claims examiners, who were not interpreting the law the way it is but rather are just doing what they feel is right; they may say, "This fellow does not have a job, and he has some disability, so we ought to give him benefits." But that is not what the law says.

Another problem is uniform administration. Since the program is administered by different states, it appears that there are varying degrees of liberality of interpretation in the different states, which of course seems unfair in a national system supported by national payroll taxes. It has been proposed that there should be federal administration of the definition of disability. I suppose that, as a longtime federal bureaucrat, I have always thought that this made sense. It seems to me that there is always unequal administration when each of the states sets its own standards. I believe it would be much better if the federal government completely administered the disability benefits program and the followed the law in the way it is written and in the way Congress intended it to be. Another problem I mentioned previously is the elimination of the unduly high benefits for young disabled workers. This also applies for young workers in the case of survivor benefits. There have been solutions proposed to this problem, through the use of that mysterious thing called "decoupling" as a partial solution to Social Security's financial problems. It so happens that decoupling will largely solve this problem of younger disabled workers having higher benefits than their earnings ever were. And this applies not just to young disabled workers who are low earners or middle earners, but even to those with high earnings (say, $15,000 a year or more). In all instances, the disability benefits can be more than net take-home pay.

Another proposal that has been made quite widely is to shorten the waiting period (which, as I mentioned, is actually a 6-1/2 month period). In the original law, it was called a 6 month period, which was actually a 7-1/2 month period. Congress recognized that it was really too long and thought that the original intent of a 6 month period should be followed out, and this change was made in 1972. Many people feel that this is too long. They say, "What's the disabled worker going to do during that 6-1/2 months? What support is he going to have?" In many cases, he is supported by state temporary disability insurance laws, such as you have here in California and as are in a few other states. Or else there are benefits coming under collective bargaining agreements or from employer-established plans, or from people's own purchases of individual insurance. Some people nonetheless propose that the period should be reduced from the present 5 months to 4 months or 3 months. In fact, some people would even do away with the waiting period altogether. This would then result in a temporary disability system under the federal social insurance program. Personally, on this matter, I am status quo-er; I think that the present situation is about right and that the first 6 months can be, and should be, taken care of on a local basis.

Let me next turn to the Medicare program. I will discuss just the existing program and proposals for changes within it, and I will not get into the much broader field of national health insurance, or nationalized health insurance, or national health benefits--whatever you choose to call it.

Under some forms of these national health proposals, the Medicare program would be completely eliminated, because a broader program would be put in its place such as under the Kennedy-Corman bill. On the other hand, under some of the other national health proposals, Medicare would be left alone, and the new programs would apply to the remainder of the population.

One change, of course, that could be made--and one that is not talked about nearly as much as it was some ten years ago when the Medicare program was started--is to extend Medicare to more beneficiary groups. True, it was extended in 1972 to disabled beneficiaries who had been on the disability rolls for two years or more, but there are still many other beneficiaries who are not under Medicare. In many instances, particularly workers who retire at age 62, there may be good reason for extending Medicare to them, assuming that the program continues in its present form. Then again, the benefits could be extended to disabled people on the disability rolls for *less* than two years. This two-year period was put in originally on a kind of trial basis, with the option that it might be lowered. I think that it would be difficult to take all of the disability beneficiaries because of what is essentially a technical difficulty, for which I cannot see a good solution.

Many people do not go on the disability rolls until some length of time has passed, after their initial application, during which the claim is abjudicated. In other words, somebody who has been disabled three or four months applies for benefits, and it may take another four or five months before he or she is adjudicated as being disabled. The reason for this is not necessarily poor administration, but rather that proving disability is sometimes a lengthy matter. The difficulty is that, during the period when the person gets disability benefits paid retroactively there is a question as to eligibility for retroactive Medicare payments. Should the initial month of eligibility established for disability payments be the initial month of eligibility for Medicare?

Now let's look at the two branches of Medicare. These are sometimes called Part A and Part B, or as I prefer to call them, Hospital Insurance (HI) and Supplementary Medical Insurance (SMI)--the latter essentially covering physician's bills. One possibility for change in HI is to provide longer or unlimited durations of hospitalization. Under the present law, in essence, the first ninety days in a spell of illness are covered and, in addition, a person has sixty additional days that can be used at any time during one's life.

I am a great believer in catastrophic insurance. For the few people that have very long durations of hospitalization, I think that the maximum should be extended beyond that in the present law. At least as a first step, I would eliminate the "life-time reserve day" concept and, instead, give that additional sixty days for every spell of illness. I think that the lifetime-reserve concept is a very poor one, because people are not capable of choosing wisely as to when to use these days. Do they want to use any of these sixty days currently, or should they save these for the future when there might be a more serious hospital spell or a more expensive one? I would just tack the present sixty days onto the current ninety days automatically, as a minimum, and then possibly provide for more days beyond 150 days per spell of illness.

Another proposal sometimes made involves the so-called skilled-nursing-facility benefits, where there is a 100-day maximum. Some people would extend that limit. I am somewhat doubtful of this, although I do believe in catastrophic insurance. The difficulty with this change would be separating the cases when it is medically necessary from those when it is only custodial care. So, I would move a little slowly if I had my choice about extending the 100-day limit.

One other feature of the skilled-nursing-facility benefits which people sometimes suggest should be changed is the requirement that the person must have been in the hospital for three days before being eligible for these benefits. Some people assert that this is inefficient because it requires prior high-cost hospitalization. So, it is argued, why not let people go into the skilled nursing facility directly? Again, I do not believe that this would solve the problem. I am afraid that, if that were done, people will enter the skilled-nursing-facility really for custodial care, whereas if they go through a hospital, there is the screening effect of the medical necessity, and I think that is very important.

Another element in HI is the home health visits, for which there is a limit of 100 visits during a spell of illness. I would eliminate that 100-visit maximum. From the experience I have seen, it serves very little purpose, and it does not cut costs significantly. There is not likely to be any great abuse of this provision, and it just seems an unnecessary complexity. Moreover, in a few cases, it may prevent desirable, necessary treatment.

Another thing that sometimes is proposed is increased cost-sharing. I am a great believer in cost-sharing. Although many people think it is a barrier to obtaining necessary medical care, I do not believe so. Instead, I think that cost-sharing is very desirable, but it must be well-planned. Cost-sharing amounts should be high enough to make people aware of the costs involved and, therefore, result in efficient use being made of the benefits, without being so high as to be a barrier to getting the necessary medical care. I think that a compromise is possible between those two views. Of course, some people do not want to have any cost-sharing at all. However, I believe in the concept; if it is judiciously used, it is best for everyone concerned.

During the time President Ford was in office, and even in his closing budget message--which I suppose had little impact on Congress--it was proposed that after the initial deductible for hospitilization ($124), there should be ten percent cost-sharing. I believe that, if something like this had been done from the beginning, it might have been desirable. From a practical, political standpoint, you just cannot "go backward" and impose such cost-sharing. This was evident from the very cool reception which this proposal received in Congress.

President Ford also proposed a partially offsetting mechanism to this increased cost-sharing--namely, a catastrophic cap of a maximum of $500 of out-of-pocket cost for cost-sharing annually. I should say, however, that the publicity made it seem as though the catastrophic provisions proposed were the major things, whereas the net effect was an increase in costs, because of the 10 per cent coinsurance mentioned previously. In other words, all the cost-sharing provisions would have been totalled, and when the initial deductible paid, along with the 10 per cent coinsurance reached $500, that would be the end of the cost-sharing.

Again, as a great believer in catastrophic protection, I think that a cap of some type is desirable. I would say that if just the cap by itself were considered--which had some favorable reception in Congress--then $500 is probably somewhat too low. I would set a somewhat higher figure, but I definitely would have a cap, so that those few people who have catastrophic hospital incidents would have a ceiling on what they would have to pay.

Another important factor about having any cap is that it should be on a dynamic basis. The $500 (or whatever figure is picked today) would not be reasonable ten or twenty years from now, because the dollar has different values over time. The cap should be related to hospital costs, and should be on an automatic or dynamic basis. In practice, it would be very difficult, for political reasons, for Congress to ever increase the cap. But if it were put on an automatic-adjustment basis--that is, if it as well as the initial deductible were annually raised to maintain the same relative position--the "blame" would fall on the Secretary of HEW.

Finally, let us look at the SMI benefits (Part B). Some people propose that physicians should be required to accept assignments and not charge over the reimbursable basis of Medicare. This can be done in various ways. One is that physicians either take all assignments or none; if they do not take assignments, the benefits will be lower to the beneficiary, putting pressure on physicians to accept assignments because beneficiaries would complain.

I am not particularly enthusiastic about these approaches I object to the government controlling physicians' fees. We have a competitive society. If we believe that physicians' fees are too high, then people should take action themselves, both individually and as groups. I believe that when our government controls things, the pressure that is averted in one area will come out in another (such as overutilization or billing of services).

The whole purpose of the SMI program has been somewhat subverted by federal control of physician fees. Originally, Medicare resulted in older people being classified in the same way as younger people. They both paid the same phsycian fees. There was no caste system. Supposedly, physicians would no longer have to "play Robin Hood" and give lower rates to older people because they were indigent. The basic idea of Medicare was to enable older people to have enough insurance to pay medical fees.

It did not work out this way. Due to certain political actions, physician fees came to be regulated *more* under Medicare than would have resulted merely from increases in the general level of medical care costs. As a result, either physicians received lower amounts for older patients, or the older patients were forced to pay more than the specified 20 percent of the cost. When Medicare started, older patients were assured that, after the initial deductible (then $50), 20 per cent of costs would be the *most* they would pay.

Another proposal regarding SMI relates to the initial deductible. The program was initially designed so that the first $50 of covered charges was met by the individual. After that, 80 per cent was to be met by the program. That $50, unfortunately, was a static figure and did not recognize changes in the economy and in the price level. Congress increased the $50 to $60 in 1972, but unless Congress changes the law again, the deductible will remain a fixed figure. I tend to think in relative terms, and not in terms of dollars which lose purchasing power. I think that the initial deductible should be kept up to date with the general price level. If this were done, as President Ford recommended, it would be about $80 presently and would be automatically adjusted in the future. Obviously, when the deductible is left at $60 forever, fifty years from now it may represent only the cost of a physician office visit. So again, I think that the program should keep its relative position, and the initial SMI deductible should be placed on a dynamic basis.

Another good idea recommended by President Ford was putting on a catastrophic cap on SMI (as well as on HI). I think that this is very desirable. Under the present law, people with very high medical expenses keep paying 20 per cent of the cost no matter how high. I think that there should be a maximum (President Ford recommended $250). If the cost-sharing payments reach that maximum, then the plan would pay 100 per cent of the remaining costs.

Another proposal that has been widely talked about in the past, although not much currently, is in regard to the coverage of out-of-hospital prescription drugs, under either Part A or Part B of Medicare. I think that such coverage logically belongs under Part B, because essentially it relates to out-of-hospital costs (though it does cover physician services in hospitals).

As to coverage of drugs, there are two options. One is to cover all prescription drugs or to limit people to certain drugs for so-called maintenance purposes (such as heart disease or high blood pressure). The patient would be charged a flat amount per prescription, and the plan would pay costs exceeding that amount. That cost-sharing amount would change over time in order to maintain its relative position as against price levels. The other approach is a catastrophic basis: for example, the first $100 per year would be paid by the individual; then, the plan would pay for 80 per cent of the drug cost after that.

As you might have guessed by this time, I am a "catastrophic" man and believe in the latter approach. A strong argument for this approach is the huge volume of drug claims involved. If the plan covers all drugs, the claims would involve 400-500 million prescriptions a year. It is a terrific administrative job to cover that number of prescriptions, many of which only provide a benefit of $2 or $3. Thus, administrative costs would be very high for that part of the program, relative to the benefits paid. The value of insurance must be appraised if administration eats up a lot of the overall cost.

Finally, some people propose that financing through premium payments from the enrollees be eliminated in the SMI program. In other words, the beneficiary would no longer pay a premium of somewhat less than half the cost, with the remaining cost coming out of the General Treasury. Instead, these medical expenses would be financed, along with HI, out of payroll taxes. A government subsidy would then also be included in the combined Medicare program. I guess that I am just an old status quo-er; I like the present arrangement, because I think that it is desirable for beneficiaries to pay something toward the cost of their medical care, both in the form of cost-sharing and in the form of premium payments. In that way, beneficiaries will recognize their responsibility for the program and for its successful operation.

DIFFERENTIAL TREATMENT BY SEX

TISH SOMMERS

I am impressed by the modesty of these professors. Dr. Meyers excluded himself but refers to the rest of us as a distinguished group of experts, and Dr. Chen also deferred to those who followed him as having the true expertise. Well, modesty stops here. Recently liberated from the pattern of perpetual deference, I will merely state that now you will hear the real expert. Someone has to ask if the emperor is indeed wearing any clothes, and that is the role of the free-lance agitator, which is my profession. In that connection, my introduction neglected to mention my credentials for this occupation--my PhD. Which in my case stands for Prior Homemaker Deluxe. So with apologies to the "status quo-er" and the "catastrophic man," I shall proceed to agitate.

The problem of our social security blanket is it's all we have, and as everyone knows, we're due for a long, tough winter. It's a patchwork quilt, seemingly made under the influence of LSD. The squares are all out of kilter. If there once was a consistent design, so many new swatches have been added that now the pattern is lopsided. The whole thing is too small to keep us covered and it has lost its resiliency to stretch over our growing frame. If one inequity is patched, another is created.

Furthermore, it has become an heirloom, so encrusted with tradition and mythology that one attacks it at one's peril. Those who do are likely to have their own warm personal blankets and don't really care whether the rest of us freeze or not.

So it is with some trepidation that I start out by saying that our Social Security system, as it now stands, is the worst example of institutionalized sexism in our society. Not because it discriminates against men as so many liberal lawyers have pointed out. In their view, women are assumed to be dependents and receive benefits automatically, which are more difficult for men to obtain. That was the essence of the Weisenfeld case, in which the Supreme Court struck down a gender-based distinction on survivor benefits. Widowers now can receive benefits on the same basis as widows. The American Civil Liberties Union, which fought the case as part of its "women's rights program" argued that benefits to widowers, without having to prove dependency, give the same value to *her* work as his. Those are, however, pie-in-the-sky benefits.

The Social Security Administration also has a barrage of rationales to support the equity of the system. "Women workers have not been shortchanged under the Social Security System," they say, because women live longer and therefore receive more benefits. It should be obvious that it costs more to live than to be dead, however. It is curious that the same logic has not been applied to race, for in this regard, Blacks have a shorter life expectancy and so, as a group, are certainly shortchanged.

Last year, Senator Church's Special Committee on Aging finally set up a task force on Social Security and Women to look for inequities in the system, and to study all relevant proposals and to make recommendations. They did a thorough job, but what they came up with were some minor reforms in disability benefits, extension to men of most so-called dependent's benefits, and some changes in the language. Why? They were all capable and knowledgeable people with well-informed staff to assist them. They came up with these insignificant recommendations--some actually backward steps for women--because they did not challenge the basis underlying assumptions of the system--the philosophy--and that is where the sexism lies. One such assumption is that Social Security is, and must therefore remain, an earnings' replacement system. Another is the premise that man is the breadwinner and woman, the dependant homemaker. A third assumes that the sole financial base is a payroll tax, euphemistically called a contribution.

But Congress created the philosophy in the first place and can change it, if it is no longer socially desirable or workable. In fact, Congress has already done so once. In 1939 amendments were added. Recognizing that strict earnings replacement was not enough, dependency benefits based on the concept of *family* earnings were added. The system now blends individual equity with social adequacy and the payment system has therefore become "weighted" in favor of lower income workers. In addressing the questions "How Social?-How Secure?" the first step is to ask which philosophical principles underlying it are still germane and which need updating.

Since the purpose of Social Security, interpreted broadly, is to provide a measure of security in old age or disablement, how well does it serve women? Like any program it must be judged by its results. Or in equal opportunity terms, what is the impact of this, our key retirement plan, on the economic welfare of a *majority* of our citizens? I emphasize majority because women comprise 59 per cent of persons over 65 and almost two-thirds of those over 75. So we're talking about most of us. As a matter of fact "a retirement income crisis now affects millions of aged and aging women, and threatens to engulf many more," as the Social Security Task Force stated. Two out of three poor persons over 65 are women, mostly widows, who after a lifetime of unpaid labor to their families and communities end up their days barely able to exist. A median income of $2,642 in 1974 means that one-half of all older women living alone had less than $200 per month. Let anyone who does not think this is national disgrace try to live on that *or less*. But, states the aforementioned Task Force, aged widows traditionally have been the most economically deprived. Well that is a tradition that needs to be challenged. We need to ask whether there might not be something wrong with the philosophy of a system that is in fact the economic bulwark for the vast majority of retired women, as well as retired men, that permits this outrage. Because until we begin to ask, "how can this be?" we will continue to talk about equality in terms of rearranging pronouns.

So, let's analyze why women are so poor when they grown old.

First, *sex discrimination in employment begets sex discrimination in retirement*. Exclusion from "man-paying" jobs continues to haunt us into our old age, because in an earnings replacement system it is upon earnings that the benefit formula is based.

Since women typically earn low wages, they also receive low benefits as retirees or disabled workers. So, after a lifetime of hard work at low-paying, often exploitive jobs, a woman retires at 65 to receive the minimum payment. "That's all there is--after I've worked all my life?" she asks.

Should not the nation's key retirement system set its sights upon making up for past discrimination by reversing the payment schedules. In Equal Pay cases, successful plaintiffs are awarded the differential in back wages. With our greater understanding these days of the extent to which women have been limited to low-paying jobs, the very least that needs to be done is a much heavier weighting in favor of low income persons in the benefits formula, to help make up for this injustice.

Second, *women are punished by Social Security for motherhood*, which compounds the effect of low pay. The benefit formula averages out earnings, eliminating only the five lowest years so that every additional year out for child raising reduces average earnings. Given the child care situation in this country and the presumed responsibility of mothers for young children, this method of computing benefits has decidedly negative impact for mothers. As long as women have more zero years of earning than men, even the full elimination of wage and job discrimination will leave benefits lower for women. In my age cohort, women averaged well over five years out for child rearing. But as stated in a SSA bulletin, "The Social Security program lacks any provision to give credit for--or even to disregard--child-rearing years in computing women's benefits." By contrast military personnel, who are mostly men, received non-contributory "credits" for the years out of the labor market, until they were covered in 1957. Yet mothers, overwhelmingly female, may not even *exclude* child-rearing years from income averaging. They get less than nothing--zero years to be averaged in. Why should not all child-rearing years be excluded, or more justly, given credit years?

More fundamental yet, *no credit is given for working in the home.* In fact, the largest body of workers still uncovered by what purports to be a universal retirement system are homemakers. According to the California Commission on the Status of Women, a recent study estimates that more than 28 million non-salaried wives and mothers perform about $340 billion worth of services each year. If a homemaker drew a paycheck, few men could afford her. Yet her services, extolled to the skies annually on Mother's Day, don't even rate a Social Security card. But she *is* covered, says the SSA. That's why dependency benefits were added in 1939. Let's examine that.

The pitfalls of homemaker dependency are legion. In the first place, a homemaker has no coverage for disability. Yet the home is a dangerous place, we are told by insurance companies. If someone has to be hired to replace her services, there is exactly the same impact on family income as though a wage earner lost a salary. And income replacement is the presumed function of disability insurance.

There are other pitfalls. Since benefits follow the breadwinner, what happens when a dependent homemaker is divorced, which is happening in epidemic proportions these days? We can now receive benefits if we were married twenty years, but if a homemaker is divorced by her husband after nineteen years, she loses *all* rights to Social Security as his dependent, even though her labor at home made possible her husband's labor at work. If marriage as a partnership is recognized at twenty years, it could only be one-twentieth less so after nineteen years.

In my own case I was married twenty-three years, but happened to be older than my husband. (It's not that rare, just hidden). I will not be eligible until *he* reaches 65, *if* he elects to retire. If he does not, I would have to wait still longer. And it is not just retirement income I lose, but also Medicare.

An absurd example of dependency pitfalls was that of a seventy-three year old widow, who after forty years of marriage, lost her benefits because her dead husband had not been properly divorced from his first wife. In 1974, there were 119 widows who lost benefits in this way. I recently received a letter from one such woman, who was desperate but couldn't even let her children know of her plight, because she didn't want them to suffer the disgrace of illegitimacy. The law, in its majestic impartiality, just doesn't take such things into account.

If you can't support yourself, you'll have to take less for life. This is better known as actuarial reduction. If you are entitled to benefits, not as a dependant but as a worker, you may elect to take them at sixty-two *but* the monthly payment will be reduced by actuarial tables to the equivalent on a lifetime basis of what you would receive if you waited until sixty-five. In 1970, half the women workers and only a third of the men claimed benefits at age sixty-two. Seventy per cent of women did not hold out until they were sixty-five.

Though some had other sources of income, the many who did not condemned themselves to an even smaller benefit than they were entitled to.

Why would they do that? For many there was no choice; older women, especially those without a job, have a terrible time finding one. In times like these, the only jobs available to them are really exploitive--physically and emotionally draining jobs of baby-sitting, live-in domestic work, homemaker and chore services for the elderly--all at low pay scales--or part-time work, such as in department stores, which take advantage of older women to avoid paying fringe benefits.

Pay twice--collect once. All wage earners pay into Social Security at the same rate, regardless of family situation. But benefits go to individuals and their dependents. When more than one person works in the family, retirement income may be no greater than if only the presumed breadwinner paid into the system. The employed wife receives no benefit for *her* payroll tax contribution.

In more than a million cases, the elderly wife who has been employed receives more as her husband's dependent, getting nothing extra for her taxes. In the so-called dual entitlement classification, more than 99.9 per cent are female. "I paid all those taxes, but don't get anything for it? I might as well have stayed home!"

Add to all these *the widow's gap.* When the youngest child reaches eighteen, the widow's benefits cease until she reaches sixty, or is *totally* disabled. Yet the homemaker-widow at fifty faces severe job handicaps because of her age, sex and lack of "recent job experience." She is ineligible for Aid for Families with Dependent Children

(AFDC) or medical benefits and in some states, even general assistance. Her plight is exploited by those seeking cheap labor.

The Weisenfeld case touched on this question. According to that decision, the law was written on the premise that a mother should have a choice of staying at home while there are young children. Once these are grown, it is presumed that savings or grown children will support her. What savings, and how many grown children support their mothers? The decision demands a new look at the realities of modern life. One woman, a widow since 1971, wrote to me, "I was fifty-four years old this past Christmas Day. My husband earned the family income and I remained hom to raise three sons and take care of my husband's parents and my mother. As of right now, I receive Social Security but next year my son turns eighteen. How do I eat and what if I get sick?" Anyone who wonders why more people don't care for their aged relatives in their homes should ponder what happens to some of those who do.

These women are part of *a new category of disadvantaged persons--the Displaced Homemaker*. There are today 2 to 6 million women who have fulfilled a role lauded by society who now find themselves "displaced" in their middle years...widowed, divorced or separated. Too old to find jobs and too young for Social Security, they are victims of changing family roles, "liberalized" divorce laws and the fact that when men remarry, they usually choose younger brides. Unlike other workers, displaced homemakers have no cushions to soften their loss of support--no unemployment insurance, no emergency job programs, no union benefits. Their situation harks back to the pre-thirties sink-or-swim conditions. They have faced mandatory retirement from their occupation, but the Social Security system and even the supplementary SSI are not geared to this discarded segment of our population. They fall outside all the social protections from sudden hardships won through collective effort.

Now add up all these points and what do you have? A Social Security system which is highly discriminatory against women--not in an abstract "equal under the law" sense, but in the far more real test of how well it keeps the wolf from the door. In that, it serves us very poorly. In the long run, it condemns a very large number of us to abject poverty. In no time of life is the payoff of woman's traditional role more clearly revealed than in old age. No wonder we feminists are beginning to reach a whole new segment of the population who never before understood what the "woman's-libbers" were talking about!

Now this unmitigated disaster for older women, our social insecurity system, did not come about as a plot against us, but was the product of an earlier time. The framers did not set out to design a sexist system, but they reflected their times. Why then, if it's so sexist, you may ask, has not the woman's movement been tackling this issue with the same vigor as equal opportunity in employment? Partly because the Social Security system is such a monster, both to understand and to change. It's much harder than demanding equal pay for equal work. And, let's face it, we all have a tendency to put retirement problems on the back burner, and younger women expect to get into the mainstream with their own Social Security credits. In an ageist society, it is easy to discount the impact on the older generation in favor of those coming along behind. But, Social Security is slowly moving up to the front burner.

The big question is, how to move.

Bad as it is, we can't get rid of Social Security until we have something better. Because that's *all* we have. Men are not that much better off in aging, but they are more likely to have pensions or veteran's benefits. Most of the critics who are ready to chuck the whole works and substitute some type of cash payment based upon a strict means test are thinking of providing *less* money, not more. In fact, most constructive effort is going into defense of the system against fiscal pressures to limit benefits. For example, the Federal Social Security Administration is currently moving to raise the age at which one can collect full benefits from sixty-five to sixty-eight, and early retirement partial benefit age from sixty-two to sixty-five, because of cost. All the dire predictions about the browning of America, the increasing beneficiary ratio to workers and the escalating pension burden have contributed to a defensive stance.

It is of course understandable that the Social Security Administration officials, past and present, should want to preserve the system intact, at whatever human cost. They have a stake in it. But others should be looking at alternatives, because sooner or later this country will need a brand new pension system based upon today's realities--both demographic and ideological. But as long as one accepts without question the philosophic principles of an earnings replacement mechanism, a regressive payroll tax as the fiscal base, and the concept of a dependency status for homemakers, the retirement income crisis of elderly women will deepen, not improve. Legalistic application of equality--that is, making the same dependency benefits available to husbands and widowers--will only make matters worse, because it will put more strain on diminishing dollars. This is the heart of the Phyllis Shaffley argument in opposition to the ERA, and why she has received a lot of support from older homemakers on the Social Security question. The real question is not--do we have "differential treatment" by sex, but how can we survive as we grow old, and what is this country's responsibility for aging persons, the poorest and most vulnerable of whom are women.

Apologists of the system will continue to argue that Social Security is neither the cause of that retirement income crisis, nor can it provide the cure. Well, if it's not part of the solution, then it is part of the problem. For if Social Security were not there, we would be seeking other methods of coping with the crisis. Indeed, the Social Security system is very much part of the cause, because it extends into old age all the sins of the past in regard to women and justifies them at every turn. Benefits calculated on earnings rates, motherhood penalized by averaging earnings, no benefits for homemakers, dependents' benefits tied to the breadwinner, actuarial deductions when you can't support yourself, earnings limitations which then become the excuse for exploitive pay and volunteerism for the elderly, regressive tax rates. For all these reasons and more, I repeat: the Social Security system as it now stands is the worst example of institutionalized sexism in our society.

So what are we going to do about it, since obviously we can't scrap it? Until something better is devised, we shall have to keep on mending. In devising new patches for the quilt we should select those which suggest the pattern for the comforter of the future, however--and not be afraid to say that these are temporary measures only. Challenges to the philosophy should not be coming only from those who want to save costs.

From the woman's viewpoint, the most promising new patch is the Fraser-Keys Bill, just reintroduced in the House. The bill is aimed at minimizing derivative benefits--that is, benefits received through the wage record of another. And it starts by assuming that work in the home has economic value, and that marriage is a partnership. (Not an entirely new concept--witness our community property principle). Since family income exists due to efforts of both partners, it is presumed that both should be credited with that income on Social Security records, similar to the rationale behind the joint income tax.

The mechanism provided in the bill is not really complex but a little difficult to explain. Earnings records would be credited from information on income tax forms. When filing jointly, each spouse would receive credit for earnings and quarters of coverage. Couples would be credited either with half of their combined earnings each or each would be credited with 75 per cent of the highest salary (in covered employment). The first alternative would be the most advantageous where the husband and wife earn close to the same amount. The second alternative would apply when there is only one wage earner, or one receives a significantly higher salary. Essentially, the 75 per cent split is what happens today when *benefits* are computed at retirement time. The total benefit for the couple is 150 per cent of his Primary Insurance Amount.

Now what does this ingenious proposal accomplish? First, it establishes portability for credits earned as a homemaker, based on recognition of the family as an economic unit. If a woman is divorced, her Social Security record goes with her into her new life. Second, it would provide disability coverage for both spouses. If they file jointly, both would be accumulating quarters for such coverage. Third, the Fraser-Keys bill lowers the age at which a woman can collect widow's benefits to age fifty, which is the approximate age at which most widowed women with children would lose benefits because their children come of age. The bill treats this benefit as a wage for purposes of developing the woman's Social Security wage record. She would be collecting benefits while building a wage record on which she will eventually retire in her own right.

In the words of the authors, the Fraser-Keys proposal is not piecemeal, nor is it completely comprehensive. It addresses the inequities inherent in the law that affect families. Work in the home should contribute toward economic security in old age. This bill moves toward giving this security to women performing such work.

It has limitations, of course. It only affects married couples, and just those who elect to file joint income tax returns. Some husbands might think twice about improving their wives' credits at their own expense. But, while it would cost something, it does not break the bank, and that, of course, makes it more acceptable. Most important, it addresses the basic sex inequities in a constructive way. The major objection to this version by the Senate's Special Committee Task Force on Women was "administrative difficulties." In fact, the problems of dividing earnings between spouses are not insurmountable, and are much less difficult than being left penniless.

A second piece of legislation with promise does not address the Social Security system as such, but looks at the employment problems of the *displaced homemaker*. Carried by Yvonne Burke in the House, HR 28, and by Birch Bayh in the Senate, S 418, the measure would set up multipurpose centers to help such women move from dependency to self-sufficiency. In regard to social security, it is a preventive measure which would help such women secure credits in their own names through employment in the pre-retirement years. But far more important than the small percentage of women who would receive direct assistance is the impact of the legislation on the consciousness of the country--starting with recognition that the problem exists, and acceptance of the principle that homemaking is work like any other. The response indicates that we have struck a chord. The issue was first raised in the spring of 1975. Since then three states have passed Displaced Homemakers Acts and twenty-seven state bills are pending. And there is a good likelihood that the goal of the Alliance for Displaced Homemakers and NOW's Task Force on Older Women will be realized--a national act signed on Mothers Day, May 8th, 1977.

But all this, including the organizing efforts which it entails, will only serve to set the stage for the big push up ahead. The issue of income maintenance, particularly in old age, needs a whole new look. However, it can't be done piecemeal. Social Security, income maintenance, health and welfare services, mandatory retirement, job opportunity and retraining are all interrelated issues and must be tackled in a coordinated way. There are all kinds of interrelated proposals that should be considered: financial incentives, as opposed to disincentives to continue working; steps to institute flexible retirement, at least within government, which would allow a person to postpone retirement or assume part-time work at an earlier age; a plan to vary retirement age according to occupation, based primarily on the physical demands of the job, etc. Similar proposals were already passed by the Council of Europe's Parliamentary Assembly in 1975.

Coming to the aging field from a feminist perspective, I feel strongly the need for emphasizing programs that promote independence and provide choices, opposed to those which foster dependency. A starting point would be affirmative action hiring of seniors in *all* programs related to aging. We must make a breakthrough somewhere.

In general, advocates for the elderly are much too timid, and underestimate the willingness of the public to support the aging. The Harris Poll's survey, "The Myth and Reality of Aging in America" found that by 79 per cent to 19 per cent, the public felt that "No matter how much a person earned during his working years, he should be able to have enough money to live on comfortably when he's older and retired" (presumably that also includes "she"), and by 81 per cent to 14 per cent, the public agreed that "government should help support older people with the taxes collected from all Americans." Those under sixty-five agreed with this even more strongly than those sixty-five and over, and employed people agreed to public support of older people in greater numbers than retired persons.

However, being a political realist, I recognize that general sentiment can be turned into positive programs only through activism and organizational effort. I well remember California in the thirties--with Townsend clubs in every town, the pension hucksters and the Epic movement. Since the government wasn't doing anything for senior citizens, they were busy doing something for themselves. The Social Security Act of 1935 was a squirt of grease for those squeaky wheels.

Prognosticator Jeanne Dixon foresees the streets filled again as in the sixties, this time not with young people but with elders. If she's right, and I hope she is, older women will be in the front ranks. With our Post Menopausal Zest (or PMZ, as Margaret Mead calls it), we will become a force to be reckoned with.

Once our own self-concept becomes strong and positive and we move into action, we can confront ageism with the same vigor that young women attack sexism, giving us extraordinary new energy--energy that will turn traditional ballot box support into potent political clout.

PUBLIC EMPLOYMENT AND SOCIAL SECURITY

E. ALLEN ARNOLD

My discussion of public employment and Social Security is intended to persuade you to accept two propositions:

First, universal coverage is desirable.

Second, many public employers have withdrawn from Social Security without having studied the withdrawal question thoroughly.

Actually, I suspect that *all* of those who have opted out have failed to analyze the question thoroughly enough, but I can't demonstrate the truth of this suspicion.

Four aspects of the universal coverage question that need to be considered are (1) the interests of public employees; (2) the interests of public employers; (3) the financial integrity of the Social Security system; and (4) overall national policy.

The first two of these, the interests of public employees and employers, also should be analyzed when withdrawal is contemplated. I therefore shall review the withdrawal and universal coverage questions simultaneously. Some withdrawal case histories studied by others will be reviewed. These cases seem typical. If they are typical, then it is likely that although some career employees have benefited from withdrawal, a great many other public employees have been, or will be, inadvertently hurt by withdrawal.

EMPLOYEE'S VIEWPOINT

There is no single viewpoint which can be ascribed to government employees in general. Furthermore, it is a rare employee who understands Social Security well enough to determine whether or not coverage is in his/her own best interest.

The three broadest categories of interests, or possible viewpoints, are those of:

1. Police and firemen and other "safety" employees, who typically are covered by public retirement systems with liberal early retirement benefits. Relatively few police and firemen are covered by Social Security. Many "retire" at ages 45 to 55 (often at half pay) to work for private employers, thereby earning private pensions and acquiring Social Security benefits as well. The status quo, no Social Security coverage for most police and firemen, would appear to coincide with these employees' interests.

2. General career employees. Because of the fairly heavy employee contributions usually required for public retirement systems, many career public employees would prefer not to be covered by Social Security. Their viewpoint is that the higher total benefits available with Social Security coverage should be provided through their own retirement systems, with their own employers absorbing the extra cost. Since Social

Security portability is not necessary for career employees, and the cost of portability could be avoided, their employers could provide fully adequate benefits from the retirement systems at a cost which would be less than the amount of payroll taxes. The cost of spouses' benefits provided under Social Security, except when both parties to a marriage have worked, also would be avoided. While these arguments are valid, they do not constitute a complete assessment of the situation. Overlooked are the non-taxability of Social Security (a hidden federal subsidy) and the possibility of efficient integration of each public retirement system's benefits and contributions with those of Social Security. It therefore is not at all clear that career employees' true interests lie outside the Social Security system.

3. Non-career employees. At any one time, a large number, perhaps as many as one-half, of a public employer's general work force may not be career employees. An even greater proportion of all employees hired, perhaps 70 or 80 percent, do not stay until retirement. The Social Security benefits of such employees would be smaller, on the average, if the employees lacked continuous coverage.

   A number of these employees become disabled at their next jobs, and, because of short service, are entitled to no disability benefits at all. In such situations, and in some cases of death, the loss or non-acqui-

> sition of Social Security's portable disability and survivor benefits can create extreme hardship. The interest of that very substantial number of employees who devote only a portion of their careers to public employment lies in public employee Social Security coverage.
>
> In spite of the disadvantages of non-coverage, many non-career employees nevertheless would prefer to give up some of their Social Security benefits in order to avoid paying Social Security taxes.

These various viewpoints of public employees cannot be blended to form a single composite viewpoint. The police and firemen's viewpoint favoring non-coverage probably is correct insofar as their self-interest is concerned. A common viewpoint among general career employees that non-coverage is desirable is correct for some individuals but not for others. Without doubt, the large number of non-career public employees would then suffer as a group if not covered by Social Security. It is reasonable to conclude, considering all factors, that coverage for general employees is beneficial to the employees as a group.

EMPLOYER'S VIEWPOINT

With the present concern about financing future Social Security benefits, it would appear that the public employer (other than the federal government) for the time being, at least, should prefer to remain in Social Security or to seek Social Security coverage, since one possible means of balancing benefit payments with income is general revenue financing. For a state or local government, general revenue financing would produce a federal subsidy of retirement expenses. (As mentioned earlier, an indirect federal subsidy already exists, namely, the non-taxability of Social Security benefits.)

Even in the absence of such a new subsidy, the various government employers as a group should expect to break at least even in the long run with respect to taxes and benefits.

When a public employer faces employee discontent because combined Social Security taxes and retirement system contributions are too high, or faces fiscal problems for any reason, withdrawal from Social Security may seem the easiest course to take. A more reasonable alternative too often is neglected: adopting an effective basis for integrating the retirement system with Social Security. Total benefits can be developed which are both adequate and equitable, and total employer and total employee contributions can be maintained at acceptable levels, with proper retirement system design.

I am going to restate the preceding summary of the general public employees' and public employers' situations somewhat differently, namely, as factors to consider in the withdrawal question, and then I shall present some ideas developed by others on the subject.

ISSUES OF WITHDRAWAL

On behalf of itself and its covered employees, a public employer has the option to stay in Social Security or to withdraw, in other words, to "buy" or not to "buy" Social Security benefits with payroll taxes.

Some of the key issues which I listed in a report for the State of California are:

-Would employees receive Social Security benefits worth more, less, or about the same as the taxes paid if Social Security coverage continued?

-Does the relationship of payments to retirement system benefits appear to be better, about the same, or worse than the relationship of taxes to benefits under Social Security?

-Could a better-designed retirement system be developed without Social Security?

-Could a superior program be developed with better integration of retirement system and Social Security benefits?

-How would the cessation of Social Security coverage affect non-career employees?

-Would employment be more attractive to potential employees with Social Security or without it?

-How would withdrawal affect covered employees approaching retirement?

-Should the philosophy underlying Social Security (of providing virtually universal, portable protection) be a factor in the decision?

-How equitable is Social Security?

Gary W. Eldred, in his paper, "Factors to Be Examined in Terminating a Social Security Coverage Agreement," suggests the following list of factors:

Incidence of taxation - meaning that the employer F.I.C.A. taxes might really be borne by employees through backward shifting, thus increasing employees incentives for withdrawal.

External costs - meaning the impact of Social Security on labor turnover and employee attitudes.

Historical perspective - benefits versus taxes viewed retrospectively for individuals.

Prospects for the future - which are our main concern here today, and which may involve discontinuities.

Loss of benefits - by individuals now covered and by future non-career employees.

Alternative benefit plans and Social Security - meaning the advantages and disadvantages and particularly the costs of replacing certain Social Security benefits.

Group characteristics - such as age, sex and marital status, which determine the value of Social Security to the employees as a group.

A September, 1976 paper prepared by the Special Committee on Aging of the U.S. Senate lists the items which should be considered as (a) the basic choices between a staff plan integrated with Social Security, an existing staff plan, an improved plan and no plan at all; (b) benefit comparability of replacement plans; (c) cost-of-living increases; (d) vesting; (e) portability; (f) desirability of employment; (g) effect of termination on present employees; (h) effect on future employees; (i) financial strength of employer's plan; (j) tax-free Social Security benefits; (k) future Social Security improvements; and (l) the possibility of general tax revenue financing.

I haven't heard of any study by a withdrawing public employer which has reviewed all the factors of either my California report, the Eldred paper or the Senate Committee's paper. Professor Eldred and the Senate Committee have reviewed the procedures and studies of some of the terminating employers.

Eldred's paper describes the steps taken by the Cities of Davis and Glendora, California, preparatory to withdrawal. In neither case was any deep analysis performed. The Davis study, for example, consisted of meeting with representatives of the local Social Security Administration office, the Public Employees Retirement System and a private insurance company, whereupon the Davis study committee voted unanimously for withdrawal, reporting that "reduction in retirement, survivors, disability, and health insurance benefits resulting from this action can be offset by alternative arrangements at a lesser cost to the employee and the city."

The Davis statement might or might not be true insofar as cost is concerned, but actually there is no way for the City of Davis to replace all of the benefits lost. The Davis study certainly failed to evaluate the costs properly.

Eldred concluded that "since these investigations are among the better of those that have been conducted, it appears that a need exists for a more appropriate framework in which the termination issue may be considered."

The Senate Committee's paper cites four similar studies, those of the Cities of Dixon, California, Haynesville, Louisiana; Plaquemine, Louisiana; and the Murray County (Georgia) Board of Education. The Haynesville town clerk's list of the reasons for dropping Social Security were (quoted from the Committee's paper):

(a) Social Security costs will rise in the future. The town will find it difficult to budget for these expenditures. Haynesville needs a level-cost retirement system that town planners can project and count on.

(b) Citizens want more and more town services but don't want to increase taxes. People must realize that they must pay for the services they want.

(c) The town can't change Social Security's cost and has no influence over it. Rising costs have been forced on the town by Washington. Social Security is just one example of federal interference with people's money. The rising Social Security is going to break the country.

(d) The replacement plans will give more in benefits.

(e) There was some concern that Social Security is going broke.

(f) The town was not directly covered by Social Security. The Social Security tax invoices must be paid to the public employees board. The town was an unwanted stepchild from the beginning.

Senator Frank Church, the Committee chairman, stated the following in the preface of the Committee's paper:

> The document provides clear and convincing evidence that the important decision--whether to continue or terminate social security coverage--is oftentimes made in a haphazard manner. The decision-making process is frequently based upon incomplete, inaccurate, or questionable information. Many workers and local government officials have failed to take into account the total impact--both immediate and in the future--of their actions. In a very real sense, some workers are playing a dangerous game of Russian roulette with their future economic security as well as their families' well-being. The decision to maximize take-home pay now may be at the cost of losing future retirement, disability, survivor, and hospital protection.

Robert J. Myers, the former chief actuary of Social Security and a speaker on the afternoon program here, presented to the Social Security Administration a report entitled "Actuarial Study of Termination of Social Security Coverage by the City of San Jose, California." The studies performed by the City and its actuaries were much more comprehensive than those mentioned in the Eldred and Senate Committee papers, but Myers nevertheless was satisfied with neither their depth nor their accuracy.

In my opinion the most crucial omission in the San Jose and other studies has been the failure to consider the proper integration of the existing retirement system with Social Security as a logical alternative to withdrawal. If total costs of retirement system and Social Security benefits are too high and if the combined benefits are not properly balanced, why not adjust the retirement system's provisions instead of leaving Social Security?

Other factors not considered at all or considered only superficially have been the current federal subsidy, the non-taxability of Social Security benefits, and the potential of a large, direct subsidy through general revenue financing. All too frequently the interests of non-career employees have not been considered seriously. The fact that older career employees can lose substantial benefits upon withdrawal is either not known or ignored.

The pressure for withdrawal frequently comes from employee organizations, but not all employee organizations favor withdrawal. At hearings held by the Little Hoover Commission of the State of California on the subject last summer, some employee associations urged withdrawal while others demanded continuation of coverage. Victor Gotbaum, head of the Municipal Labor Committee of New York City, said that Mayor Beame was "trying to deprive hundreds of thousands of workers of their retirement benefits" in taking New York City out of Social Security.

If each general public employee fully understood Social Security as it affected his own self-interest and then voted accordingly, the following would be the potential lineup of employees.

- For withdrawal:

  - Younger career employees who moonlight or who expect to work after retirement from their public jobs;

  - Female employees married to covered workers;

  - Highly paid employees.

- Against withdrawal:

  - Employees subject to greater risk of disability;

  - Older career employees;

  - Career employees who don't expect to earn Social Security elsewhere;

  - Employees with many dependents;

  - Low paid employees;

  - Married employees with non-covered spouses;

  - Employees who expect to terminate before retirement.

These groups overlap considerably, and it is often difficult for an employee, except for an older one, to be sure of his own status as a career employee. Nevertheless, if each employee were to vote according to his own self-interest as it really is, the majority would vote for continued coverage. Much of the current sentiment among public employees for withdrawal, not that such sentiment is by any means overwhelming, is based on a lack of comprehension of where that self-interest lies.

The other main pressure for Social Security withdrawal has developed from budget problems, New York City being the prime example. Not every government employer which has been so motivated has withdrawn, however. Last spring the Los Angeles County Board of Supervisors rejected withdrawal in spite of having been informed that the Social Security benefits could be replaced at an annual savings of $27 million.

It may be that these employee and budgetary pressures have encouraged wishful thinking and, consequently, inadequate analysis. The possible cures for wishful thinking about Social Security withdrawal include education, penalties upon withdrawal, and mandatory coverage. Penalties might be loss of CPI escalation for Social Security benefits earned in employment involved with a withdrawal, loss of tax deductibility, an adjusted minimum benefit formula or a reconstituted benefit formula based on pro-rating total wages.

Of these, the most effective cure obviously would be mandatory coverage under a universal Social Security system.

So far we have been considering Social Security coverage of public employees as though it were no concern of anyone but the employees and employers themselves. Although the individual studies on the withdrawal question usually have involved just such limited perspectives, the broader public interest must be considered. Let us consider public employee coverage in relation to the Social Security system itself.

FINANCIAL IMPACT ON SOCIAL SECURITY SYSTEM

The exclusion of public employees from Social Security coverage reduces both the benefits and the taxes of the Social Security system. The combination of moonlighting, early "retirement" in order to work under covered employment and higher spouse benefits nevertheless produces a financial drain upon the system. The bias in the benefit formula in favor of lower average wages and the payment of Social Security spouse benefits to working spouses not covered directly by Social Security produce costs which are not reimbursed in full by the additional taxes collected.

The provision in the Social Security Act which permits coverage and subsequent withdrawal of public employee groups allows a further unfavorable effect on tax receipts versus benefit disbursements. These options, if exercised intelligently, provide another means of taking advantage of the system: adverse selection by groups of older employees who come into the system just long enough to maximize benefits relative to payroll taxes.

Mandatory coverage of all public employees (including all federal employees) would eliminate these drains upon the system when financing is provided by payroll taxes. The adoption of general revenue financing, of course, would change the situation drastically: it would create a Social Security subsidy for covered groups.

The most recent "Reports of the Advisory Council on Social Security" indicated that coverage of federal, state and local employees would increase covered employment by about six million. The effect upon payroll taxes would be a long-range reduction averaging about 0.25 percent for cash benefits and another 0.10% for hospital insurance. Haeworth Robertson in a speech last month reported that a 2 per cent reduction of average long-term payroll costs would ensue, or somewhat less than a 1/2 percent reduction in taxes as a percentage of covered payroll.

Universal coverage thus would help the system financially and would help employers and employees already in the system, insofar as their payroll taxes were concerned. If universal coverage were to lead to sensible redesign of existing public employee retirement programs, it would be financially helpful to nearly everyone (except to those who now obtain windfalls under the current law). If such redesign did not occur, then taxpayers in general would suffer taxation to pay for both the public employer's payroll taxes and the excess retirement system contributions which could have been eliminated because of duplicate retirement coverage.

NATIONAL POLICY

Although universal Social Security coverage never has been a stated national policy, Congress gradually has broadened the Social Security Act by either requiring or permitting new kinds of employees (including public employees) to become covered. It appears that the intent of Congress has been to make Social Security coverage as broad as political and other considerations have permitted.

When Social Security first was enacted in the 1930s, few private employees were covered by retirement plans, but a large proportion of public employees were covered, in particular federal employees (including the armed forces). Now a large proportion of private employees also are covered by retirement plans (and profit-sharing, savings and other deferred benefit plans). Although pension coverage in certain kinds of private employment still is deficient, overall pension plan coverage in private employment is now similar to that of public employment in the 1930s. While there might have been apparently sound reasons for Social Security's disparate treatment of private and public employees in the '30s, this is no longer the case.

The enactment of the Employee Retirement Income Security Act of 1974 was prompted by the desire of Congress to protect employee benefit rights, including those of employees who move from one job to another. It would appear that Congress also should be concerned about the portability of Social Security benefits for non-career public employees.

It therefore now seems logical to assume that universal coverage conforms with national policy. We have been moving in that direction for over a quarter of a century. Inequities to individual employees need correcting. Although coverage would appear to injure the interests of certain groups, universal coverage merely would eliminate unintended subsidies provided them by other groups.

The only sizable groups of employees not yet covered by Social Security are in public employment. (Railroad employees are covered indirectly) The mandatory extension of Social Security to all public employees would create almost universal coverage. Congressional action to mandate coverage for public employees has become much more likely than it was just a few years ago.

A number of individuals or bodies who have studied this issue now urge either universal coverage, mandatory public employee coverage or federal civil service coverage. Robert Tilove, in his excellent book, *Public Employee Pension Funds*, states the argument as follows:

> The case for universal coverage rests on three premises: the equity of universal financing, the desirability of eliminating duplication, and the value of full vesting or portability.
>
> Financing the welfare aspects of Social Security should be a widely shared obligation. It is difficult to see exemption as other than a privileged tax position. To be sure, public employees not covered by Social Security pay substantial rates of contribution to their retirement systems, but none of it helps to support the relatively generous Social Security benefits for those who have had the lowest earnings in the nation.
>
> A second purpose would be to eliminate the payment of relatively liberal Social Security benefits to workers who seem, in OASDHI records, to have suffered from exceptionally low earnings or irregular employment, but who were really working most of the time in public employment on the basis of which they qualified for relatively good staff pensions.

> A third purpose would be to protect the worker who goes through many jobs by crediting his public employment, however short, toward his Social Security eligibility for retirement, disability, and death benefits.

Haeworth Robertson, in the speech mentioned earlier, had the following to say:

> Some way will be found to make participation compulsory for all state and local employees. Alternatively, if and when nonpayroll taxes are used to a significant degree to finance Social Security, state and local employees may insist on being covered by Social Security in order to receive their money's worth from their general taxes. Also, as the real costs of existing public employee retirement systems become more evident, there will be more of an inclination to reduce benefits under such systems and integrate them around the Social Security program. These same factors may encourage federal civil servants to participate in Social Security and appropriately adjust benefits payable under the civil service retirement system.

Robert Kaplan in his paper, "Financial Crisis in the Social Security System," recommends bringing all federal employees into the system. His principal argument is that coverage would eliminate the minimum windfall, which is not really *earned* by completing coverage requirements. Even when the minimum benefit is exceeded, the bias of the benefit formula toward low wages creates a windfall, which again is not justified in this case by poverty. The minimum benefit provision and the loading in the benefit formula for lower wages are intended to help lower-paid workers as a matter of right rather than charity. These features of Social Security were not designed to provide windfalls to government employees.

Pechman, Aaron and Taussig, in a Brookings Institution report, recommend mandatory coverage of all government employees.

The Advisory Council reports contain the following recommendation:

> Universal, Compulsory Coverage
>
> The social security system should be applicable to virtually all gainful employment. Therefore Congress should develop immediately ways of achieving this, giving special attention to those areas of employment in which coordinated coverage under social security and existing staff-retirement systems would assure that benefits are reasonably related to a worker's lifetime earnings and contributions.

The Advisory Council reviewed the arguments for mandatory coverage, and then concluded as follows:

> Before deciding to recommend universal coverage under social security, the Council considered other approaches for dealing with the windfall benefits problem in cases where the person is also entitled to a staff-retirement pension based on work that is not covered by social security. For example, consideration was given to recommending offsets in social security benefits, or a change in the method of computing social security benefit amounts, to take account

> of the staff-retirement pensions. The Council concluded that, because these alternatives represent piecemeal and usually complicated approaches to the problem, they would not achieve equitable results and would be difficult to administer....The Council recognizes that many difficulties must be overcome if the objective of universal, compulsory coverage under social security is to be achieved. However, it is of great importance from the standpoint of assuring good basic protection for all workers on an equitable basis that all jobs be compulsorily covered under social security. The Council therefore urges the Congress to act promptly to extend coverage to the non-covered areas of employment.

The "Report of the Consultant Panel on Social Security" recommended last August that "particularly, government employees should be included in Social Security." One of its comments is especially well put:

> The most urgent need is to remove as rapidly as possible the opportunities for people to stay out of the system while qualifying for other forms of government pension, and then, having so qualified, to enter the system for a relatively brief time, reaping the special benefit advantages that were intended for, and can be justified only for, low-paid workers.

The Church Committee's report included a table which showed that coverage for about 30,000 employees was terminated prior to June 30, 1975. On June 30, 1975, 9.8 million state and local government employees had coverage. Terminations since then and terminations filed through March 31, 1976 involve terminating coverage for 469,000 additional employees, of whom 362,000 are in New York. The withdrawal trend is accelerating.

Those of us who are familiar with Social Security and public retirement should raise our voices in support of universal coverage; the longer it is postponed, the worse the coverage problem will become. For as long as coverage is not mandatory we also should try to persuade local and state governments to make thorough studies of the withdrawal question before proceeding to opt out of the Social Security system. While those who understand the coverage question may not be very numerous, we sometimes have opportunities to exert considerable influence--in many circumstances, legislators, administrative officials or committees would be delighted to find someone knowledgeable to guide their explorations of this complex question.

THE COST OF SOCIAL SECURITY: 1976-2050

A. HAEWORTH ROBERTSON

Most of you have probably read or heard one of the following headlines in the popular news media: "Is Social Security Going Broke?" "Trustees Report 7.96% Deficit!" "Bankruptcy Ahead for Social Security?"

The easy response to these headlines is things are not as bad as they may sound. There is no imminent danger of retired persons losing any of their benefits. There are potential long-range financial problems, but there is ample time to solve them.

I agree with all these responses, but I did not come here today with glib comments just to make you feel better. I shall attempt to explain in about thirty minutes a very complicated subject which requires hours of discussion for a complete understanding: the cost of Social Security--1976-2050. Therefore I ask your indulgence if I cover some questions superficially and some not at all.

Expenditures for the cash benefits part of the Social Security program (old-age, survivors, and disability insurance) amounted to $69.2 billion in calendar year 1975. This was 10.7 per cent of taxable payroll. This cost is currently projected to rise steadily until it reaches 19 per cent of taxable payroll if the automatic adjustment provisions in the present law are not revised appropriately.

Is this really possible? Just twenty-eight years ago, in 1950, the expenditures for Social Security were 1.1 per cent of taxable payroll; in 1960, they were 5.9 per cent; in 1970, they were 8.1 per cent; and in 1975, expenditures were 10.7 per cent of taxable payroll.

A brief look at Charts 1 through 5 will give you an overview of the long-range financing picture. I hope it will help you personally to evaluate the situation.

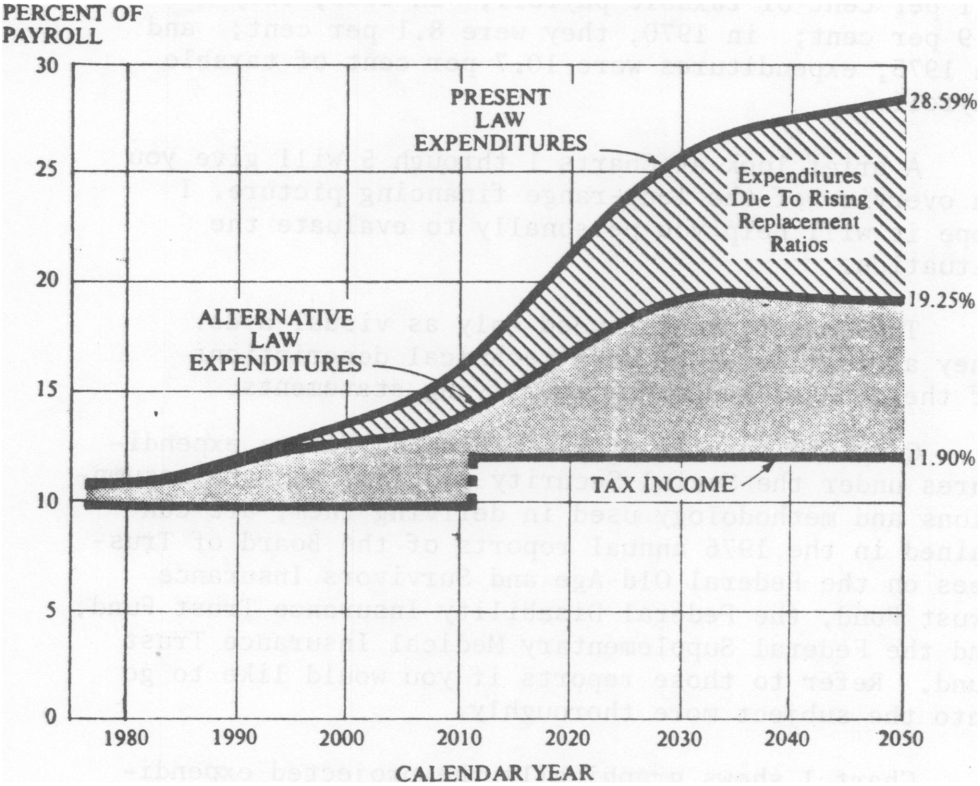
The charts are intended only as visual aids. They are not burdened with technical descriptions of their bases and other qualifying statements.

Complete details of the projected future expenditures under the Social Security program, and the assumptions and methodology used in deriving them, are contained in the 1976 annual reports of the Board of Trustees on the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund. Refer to those reports if you would like to go into the subject more thoroughly.

Chart 1 shows graphically the projected expenditures and tax income under the present law, as well as the expenditures under an illustrative alternative law under which the benefit replacement ratio (the ratio of the initial benefit to the earnings just prior to retirement) remains level for future generations of retiring employees (more about this later). The lower

CHART 1

PROJECTED EXPENDITURES UNDER PRESENT LAW AND UNDER AN ILLUSTRATIVE ALTERNATIVE LAW (WITH STABLE REPLACEMENT RATIOS); AND TAX INCOME UNDER PRESENT LAW; EXPRESSED AS A PERCENTAGE OF TAXABLE PAYROLL

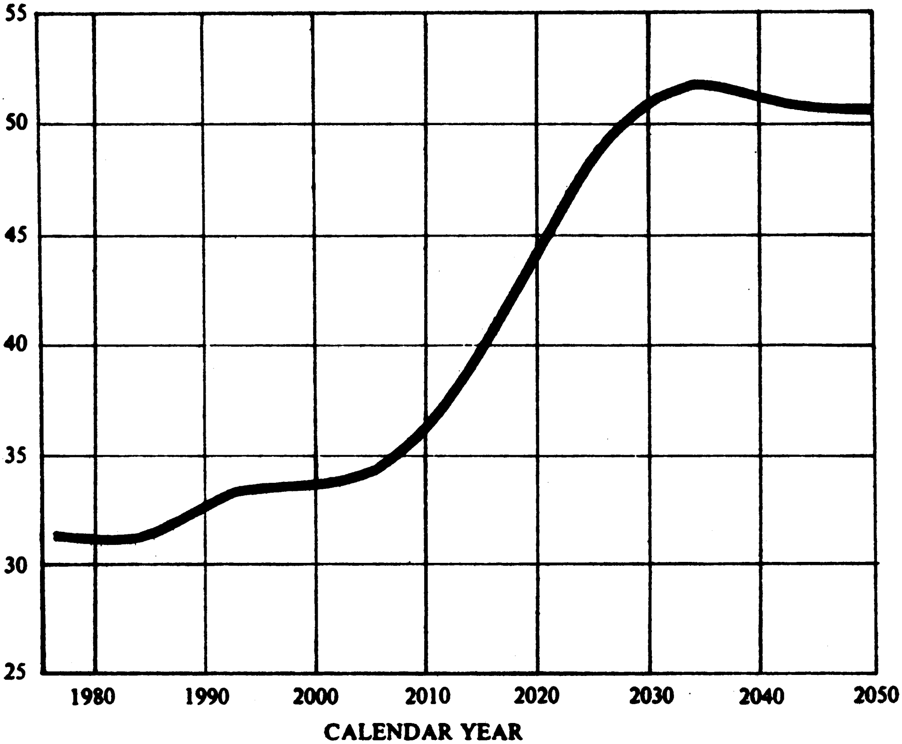


ARITHMETIC AVERAGE OF EXPENDITURES, TAX INCOME, AND DEFICITS UNDER PRESENT LAW AND ILLUSTRATIVE ALTERNATIVE LAW EXPRESSED AS A PERCENTAGE OF TAXABLE PAYROLL

	Present Law			Illustrative Alternative Law		
Time Period	Expenditures	Tax Income	Deficit	Expenditures	Tax Income	Deficit
1976-2000	11.81%	9.90%	1.91%	11.58%	9.90%	1.68%
2001-2025	17.95	11.10	6.85	14.91	11.10	3.81
2026-2050	27.04	11.90	15.14	19.30	11.90	7.40
1976-2050	18.93	10.97	7.96	15.25	10.97	4.28

CHART 2

PROJECTED BENEFICIARIES PER HUNDRED COVERED WORKERS 1976-2050



PRINCIPAL ASSUMPTIONS

Mortality rates were assumed to decline overall by about 15% from 1976 to 2050.

Fertility rates were assumed to continue decreasing to 1.75 children per women in 1977 and then slowly increase to an ultimate rate of 1.90 children per woman in 2005.

Female labor force participation rates were projected to increase to an ultimate level 22% greater than the 1975 level. The unemployment rate for the total labor force was assumed to be 5% after 1981.

Disability incidence rates were projected to continue increasing to a level 33% higher than the 1975 level.

Under these assumptions the population would grow from its level of 223 million in mid-1975 to 274 million by the year 2015, remaining slightly above that level through the year 2050.

portion of the chart shows a comparison of the average expenditures and tax income, and the resulting deficits, over various periods of time.

The deficit most frequently quoted in recent months is 7.96 per cent of taxable payroll. This is the arithmetic average of the excess of expenditures over tax income during each of the next seventy-five years. This is an extremely large deficit in relation to the currently scheduled average tax income of 10.97 per cent of taxable payroll. Why are we now projecting this large deficit of 7.96 per cent of taxable payroll, when four years ago in 1972 we did not anticipate any deficit?

The relatively small deficit which began in 1975 and is expected to continue during each of the next twenty-five years is a result of these factors:

(i) unprecedented and unanticipated inflation in recent years and approximately corresponding increases in benefits (benefit increases of 11 per cent in 1974, 8 per cent in 1975, and 6.4 per cent in 1976), and an expectation that inflation will continue at higher levels in the future than was formerly anticipated;

(ii) unexpectedly high rates of unemployment beginning in 1974, resulting in less than anticipated tax income;

(iii) higher than expected disability insurance expenditures in recent years and an expectation that future disability costs will be higher than formerly anticipated.

At the beginning of calendar year 1976 the OASDI Trust Fund amounted to $44.3 billion, or 57 per cent of current annual expenditures. Unless additional tax income is obtained, the OASDI Trust Funds are projected to be depleted by about 1982.

With respect to the deficit expected after the turn of the century, this is primarily a question of our now having a different view of the future than we had a few years ago. Beginning with the projections made in 1974, our expectation about the fertility rate in the future has changed. We now expect the fertility rate to be lower in the future than formerly assumed. The fertility rate has declined steadily from a high of 3.7 children per woman in 1957 to its present level of about 1.8. We are now assuming the fertility rate will continue its decline to 1.75 in 1977 and then rise steadily to 1.9 in the year 2005. Under this assumption the population will grow from some 223 million in mid-1975 to 274 million by the year 2015, remaining slightly above that level through the year 2050.

Chart 2 illustrates the effect this assumed fertility rate will have on the number of OASDI beneficiaries for every 100 covered workers, i.e., the active tax-paying population. There are now thirty-one beneficiaries per hundred covered workers but during the middle of the next century there will be more than fifty, an increase of about 65 per cent. Since the Social Security program is financed on a current cost basis, collecting only enough in taxes to pay benefits currently due, it is obvious that expenditures will rise some 65 per cent solely as a result of the population changes now anticipated.

This demographic area is not the only one in which our outlook has changed. Beginning with the projections made in 1975, we have assumed higher, and less favorable from a cost standpoint, rates of inflation and wage changes than we had formerly assumed. We have assumed that after 1981, the average annual wage increase will be 5.75 per cent and the average annual Consumer Price Index will be 4 per cent, with a resulting average annual productivity increase of 1.75 per cent (more precisely 1.68 per cent). In our 1974 cost studies we had assumed wage increases of 5 per cent and CPI increases of 3 per cent. The result of using these new assumptions is a much higher deficit in the next century as illustrated in Chart 1.

Why does this seemingly small change in assumptions about future wage and price increases make such a large difference in projected costs? It is because the automatic adjustment provisions adopted in 1972 do not produce consistent results under varying assumptions as to wage and price increases. This can be illustrated by referring to Chart 3 which shows that, based on the economic assumptions used for the 1976 projections, the replacement ratio (the ratio of the initial benefit to earnings just prior to retirement) continues to increase over time for future cohorts of retired employees. The projected extra expenditures resulting from this rising replacement ratio are illustrated in Chart 1.

Chart 4 illustrates the sensitivity of the replacement ratio to alternative wage/price assumptions. For example, the replacement ratio for a median wage earner retiring in 1976 is 44 per cent, but for a median wage earner retiring in the year 2050, the replacement ratio could be as low as 48 per cent or as high as 97 per cent based on the wage-price increases illustrated. The resolution of this problem of erratic and unpredictable

CHART 3

REPLACEMENT RATIOS* FOR MALES RETIRING AT AGE 65
LOW, MEDIAN AND MAXIMUM WAGE EARNERS**
(INTERMEDIATE ECONOMIC ASSUMPTIONS)***

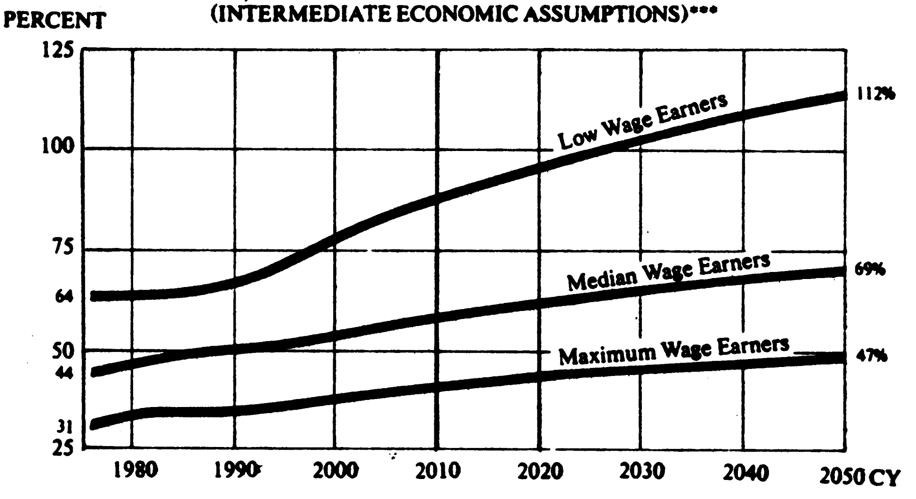
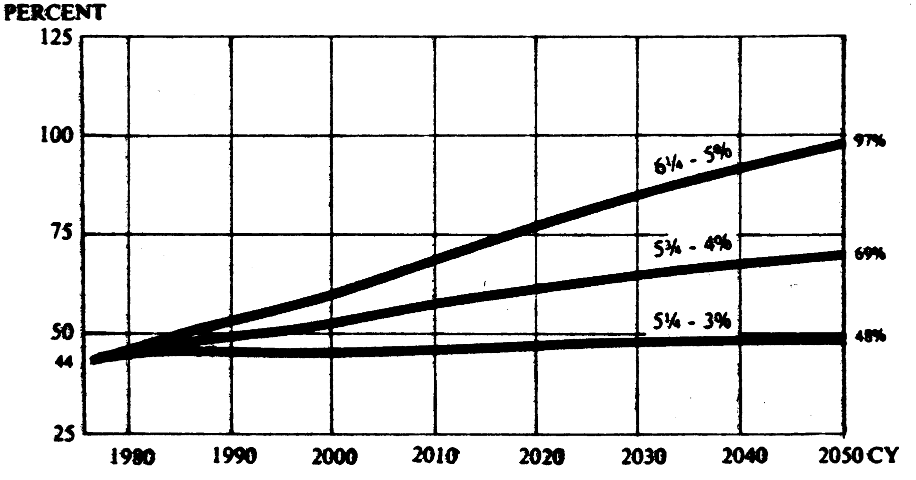


CHART 4

ILLUSTRATION OF SENSITIVITY OF REPLACEMENT RATIOS*
TO ALTERNATIVE WAGE-PRICE ASSUMPTIONS
FOR A MALE RETIRING AT AGE 65 WITH MEDIAN EARNINGS



* The Replacement Ratio is the ratio of the initial benefit to the earnings just prior to retirement.

** Low wage earners are defined as workers earning the Federal minimum wage. In 1975 "low", median and maximum earnings were $3,789; $8,188 and $14,100 respectively.

*** The intermediate set of assumptions includes an ultimate CPI annual increase of 4% and an ultimate wage annual increase of 5¾%.

CHART 5

PROJECTED EXPENDITURES, TAX INCOME, AND DEFICITS, EXPRESSED AS A PERCENTAGE OF TAXABLE PAYROLL

Calendar Year	Based Upon Present Law: Old-Age and Survivors Insurance			Disability Insurance			Medicare (Hospital Insurance)			Total for OASDHI			Based Upon Illustrative Alternative Law[1]: Total for OASDHI			Medicare (Supplementary Medical Insurance)[2]
Year	Expend.	Income	Deficit	Expend.	Income	Deficit	Expend.	Income	Deficit	Expend.	Income	Deficit	Expend.	Income	Deficit	Expenditures
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1976	9.36	8.75	.61	1.42	1.15	.27	1.87	1.80	.07	12.65	11.70	.95	12.65	11.70	.95	.79
1980	9.15	8.70	.45	1.53	1.20	.33	2.26	2.20	.06	12.94	12.10	.84	12.93	12.10	.83	.96
1985	9.46	8.60	.86	1.70	1.30	.40	2.82	2.70	.12	13.98	12.60	1.38	13.94	12.60	1.34	1.25
1990	9.98	8.50	1.48	2.08	1.40	.68	3.54	3.00	.54	15.60	12.90	2.70	15.39	12.90	2.49	1.61
1995	10.37	8.50	1.87	2.52	1.40	1.12	4.27	3.00	1.27	17.16	12.90	4.26	16.71	12.90	3.81	1.88
2000	10.48	8.50	1.98	2.93	1.40	1.53	4.93	3.00	1.93	18.34	12.90	5.44	17.49	12.90	4.59	1.93
2025	19.68	10.20	9.48	4.41	1.70	2.71	7.16[3]	3.00	4.16	31.25	14.90	16.35	25.63	14.90	10.73	2.59
2050	23.72	10.20	13.52	4.87	1.70	3.17	7.46[3]	3.00	4.46	36.05	14.90	21.15	26.71	14.90	11.81	2.64

Explanatory Notes:

Estimated expenditures are for benefits and administrative expenses.

The deficit is the excess of the expenditures over the tax income for the year. This ignores any amounts in the trust funds and interest earnings thereon.

The effective taxable payroll is slightly different for OASDI and HI because of the tax treatment of self-employed persons; however, it does not materially affect the comparisons.

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[1] Under the illustrative alternative law (labeled as the "modified theoretical system" in the 1976 OASDI Trustees Report), it has been assumed that the replacement ratio (the ratio of the initial benefit payable at age-retirement to the individual's preretirement earnings) will remain stable at approximately the levels prevailing in January 1978.

[2] Expenditures are approximately equal to total income from premiums and general revenue for the Medicare-SMI program. Although the Medicare-SMI program is not financed by payroll taxes, its cost is shown for comparative purposes as a percentage of payroll which is taxable for HI purposes. Figures after 1976 are based upon unpublished estimates.

[3] Based upon unpublished estimates. For the purpose of this comparison, it was assumed that after the year 2000 medical care unit cost increases would be equal to average wage increases in covered employment.

replacement ratios is probably the most important task which must be faced during the coming months by those concerned with our Social Security program. It is also one of the most confusing and least understood aspects of the Social Security program.

Obviously, it is extremely important that the benefits paid in the future under the Social Security program be determined as a result of deliberate action on the part of the Congress and not a result of chance future behavior of wage/price increases. In other words, the present replacement ratios for various levels of earnings should be the same for a person retiring in the future as they are for a person retiring today--unless deliberate action is taken to change those replacement ratios. Perhaps I should mention that this issue of revising the automatic adjustment provisions is commonly referred to as "decoupling." The problem is being studied from all angles by a number of interested parties and I would urge you to stay as well informed as possible so that you can lend your support to a rational solution.

It is obvious that no one can predict wage/price increases for the next seventy-five years either in absolute terms or in relation to each other. Neither can the population growth be predicted with certainty for the next seventy-five years. Therefore, the 1976 Trustees Reports include illustrations of how the cost projections would vary if changes were made in some of the more important assumptions (wage/price increases, fertility rates, etc.).

Despite the uncertainty of these long-range projections, they do serve as a valid indicator of the probable trend in future costs, and they do indicate that the present method for making automatic adjustments in benefits and in the covered earnings must be revised if the Social Security program is to operate on a predictable and rational basis. Long-range projections should definitely be taken into account in planning for Social Security. We should strongly resist any efforts which may be made to ignore long-range projections on the grounds that they are only "actuarial estimates" and they may not come true. When appropriate changes have been made in the automatic adjustment provisions so that the replacement rates are predictable, the long-range costs will be predictable with much more accuracy.

Thus far our discussion has been limited to the cost of the cash benefits part of the Social Security program, i.e., old-age, survivors, and disability insurance benefits. Another important part of the Social Security system is the Medicare program. Chart 5 summarizes projected expenditures and tax income for each of these components of the Social Security program.

The Hospital Insurance portion of Medicare is supported by taxes paid by employers and employees, combined, of 1.8 per cent of taxable payroll (0.9 per cent for the self-employed). These combined taxes are scheduled to increase gradually to 3.0 per cent of taxable payroll by 1986. Current projections indicate that this tax schedule will be adequate for the next 5 to 10 years, but that it must be increased thereafter. The cost of Medicare-Hospital Insurance Benefits is projected to be almost 5 per cent of taxable payroll by the year 2000; by the year 2050 this cost will probably be at least 7.5 per cent of taxable payroll.

The Supplementary Medical Insurance (SMI) portion of Medicare is an optional program available to most persons age 65 and over and to certain disabled persons. About 95 per cent of those eligible for this program have elected to participate. The cost of Medicare-SMI benefits was intended to be met by premiums paid by the participants and approximately matching payments from general revenues (Although at the present time more than one-half the total cost is being paid from general revenues). The cost of benefits and administrative expenses in calendar year 1975 was $4.7 billion, $2.6 billion of which was met from general revenues. Although the Medicare-SMI program is not financed by payroll taxes, its cost is shown for comparative purposes in Chart 5 as a percentage of payroll which is taxable for Medicare-Hospital Insurance purposes. The expenditures under this program are projected to increase from .79 per cent of taxable payroll in 1976 to 2.64 per cent in the year 2050.

Of course there are a variety of other income maintenance programs (workman's compensation, unemployment insurance, etc.) which we have not attempted to cover in our discussion here.

We have been discussing expenditures, replacement ratios, fertility rates, inflation, etc. What can we say in summary about the financial condition of our Social Security program?

In 1976 the expenditures under the Social Security program for old-age, survivors, disability, and Medicare (HI and SMI) benefits will amount to about 13 per cent of the payroll which is subject to Social Security tax. If the automatic adjustment provisions are revised to yield stable replacement ratios at current levels, the expenditures for these benefits will rise from the present thirteen per cent of payroll to about 19 per cent of payroll by the year 2000, just 25 years from now; and the expenditures will continue to rise after the turn of the century to some 28 per cent of payroll by the year 2025, remaining approximately level thereafter.

All of this is based on the assumptions stated in detail in the 1976 Annual Reports of the Board of Trustees, and on the assumption the automatic adjustment provisions are revised and the replacement ratios are stabilized, i.e., if the present law remains unchanged, the total expenditures under the Social Security program could reach the level of some 35 per cent to 40 per cent of payroll during the first half of the next century--and possibly a higher level if actual experience as to demographic and economic conditions is less favorable than has been assumed.

Therefore it would seem to be obvious that the automatic adjustment provisions must be revised and the replacement ratios must be stabilized. Even then Social Security's financial problems will not be solved, but there is a greater chance they will be manageable.

There is much more to be said about the financial aspects of our Social Security program. Unfortunately, I cannot elaborate further here. I would urge you to become as fully informed as possible about the Social Security program and the many ways it affects you, personally, your business activity and your employees, and the nation as a whole.

In summary, I would say that the Social Security program has financial problems: relatively minor, in my opinion, during the next five to ten years; but becoming much more significant during later years, particularly after the turn of the century. I believe that the financial problems will be solved and that they will not result in the collapse of the Social Security program; neither will they result in any curtailment from current benefit levels.

The Social Security program is so large and well-established, and such an important and integral part of our national socio-economic structure, that its momentum will not be halted. The only question is in what direction and by how much will the Social Security program grow: will it grow in an uncontrolled and irrational manner, or in a logical way so that it will best match the economic needs of the beneficiaries and the financial ability of the taxpayers? The answer to this question will depend in large part upon you and upon your action, or your inaction.

THE FINANCING OF SOCIAL SECURITY

BERT SEIDMAN

INTRODUCTION

There is a problem--short-term and long-term. We would be foolish not to recognize it and act responsibly to meet it. However panic-mongering is unwarranted and performs a great disservice. The problem itself is not unique to the United States, but irresponsible panic-mongering may be.

Forecasting is hazardous--especially long-range forecasting. Coopers and Lybrand, the highly reputed pension consulting firm, states in one of its newsletters: "The degree of confidence placed in long-range assumptions diminishes with increased time from the present." They then comment, very significantly: "While the social security system certainly is not in actuarial balance, a good part of the 8 per cent deficit may well never develop. Due to the enormous problems involved, it is quite difficult to make realistic economic projections for periods of seventy-five, fifty, or even twenty-five years. In the last few years, the long-term economic assumptions have apparently been influenced significantly by recent, perhaps transient, economic problems. The uncertainty of assumptions, and the system's sensitivity to small changes in them, should, then, limit the degree of reform now directed specifically toward closing the second- and third-period deficits."

The Coopers and Lybrand article concludes significantly: "Our own conclusion...is that the projected deficit may not be as serious as presently calculated.... currently, no precipitate action should be directed specifically at the later deficits."

THE PROBLEM--WHY WE ARE DISCUSSING THE SUBJECT: SHORT TERM AND LONG TERM

The trust fund is intended as a cushion, but it should not be depleted beyond a safe point. We can expect it to rise in good times, fall during recessions, and be replenished again in recovery periods.

The short-term problem stems from an unprecedented combination of high rates of both unemployment and inflation. This is due to bad economic policy, not anything peculiar to the Social Security System. Some correction is likely--apparently not enough--if we move toward full employment with restrained inflation.

What Commissioner Cardwell has called "the over-indexing of benefits" that arises from the 1972 legislation creating automatic cost-of-living increases is one factor in the long-term problem. The problem arises because the cost-of-living increases for retirees also apply to future benefit levels for current workers. But since the price increase which produces the cost-of-living increase in benefits also tends to increase the current workers' wages on which their future benefits are based, there tends to be a double compensation for price increases in their future benefit entitlement, possibly resulting in retirement benefit payments in excess of pre-retirement wages for many.

Economic assumptions are important factors when evaluating Social Security in the long run. Most important of these economic assumptions are rates of unemployment, inflation, and real wages. Social Security Trustees are making pessimistic assumptions about their *middle* range (1982-2050):

(1) unemployment will be 7 1/2 per cent through 1981, and will still average 5 per cent until 2050 (or "optimistically" 4 1/2 per cent);
(2) the CPI will not get down to 5 per cent until 1981 and then will average 4 per cent until 2050; and
(3) real wages will be 2 to 2 1/2 per cent until 1981 and then average 1 3/4 per cent until 2050.

Will the American people settle for policies yielding such dismal results? Even though the AFL-CIO is critical of the scope and composition of the Carter Administration's recovery package, its goals are more ambitious than this. What is the impact of demographic projections on the labor force, the number of Social Security beneficiaries, and the labor force/beneficiary population ratio? Economic assumptions and demographic projections together are responsible for about half of the assumed long-term actuarial deficit. The rest can be dealt with by decoupling.

We can't predict future birth rates with any certainty. But we can, within certain limits, predict the effect of births which have already occurred on the size and composition of our population in the next century. We will have relatively (1) more people over sixty-five, (2) fewer people eighteen or twenty-one to sixty-five, and (3) fewer children (assuming continued low birth rates).

But this does not necessarily mean drastically more beneficiaries in relation to the people employed. That will depend on (1) the state of the economy, and (2) the desire of people--in particular women and the aging--to work and the demand for their services. A recent Labor Department survey shows participation of women is higher than was expected in the period up to 1990 with "mothers of young children increasingly likely to be in the labor force."

But there is still another factor which could increase our willingness to finance our Social Security requirements in the next century. As Professors Yung-Ping Chen (UCLA) and Kwang-wen Chu (California State University) have shown in a recent paper presented to the Industrial Relations Research Association, the old age dependency ratio (proportion of those working to the elderly) is likely to be 50 per cent *higher* in 2050 than in 1975 (and this could be less as I have indicated). The young age dependency ratio would be 25 per cent *less* because of the assumed relatively smaller number of children. The two professors estimate the total dependency ratio in 2050 at more than 7 per cent *less* than in 1975 and conclude: "...the projected changing age composition in the population does not mean bankruptcy or insolvency of Social Security, but does imply a shifting pattern of public expenditures for the two groups of dependents. The degree of the shift in expenditures from the young to the old will be a function of the preferences and priorities of the American society."

HOW TO DEAL WITH THE PROBLEM

Unlike the Social Security Trustees, our long-term solution is the same as our short-term solution.

We reject further increase in the payroll tax because it is regressive. Instead we would rely on:

a. decoupling--with a constant replacement ratio (but always subject to Congressional action);
b. increasing the earnings base for employees by a series of steps and removing it altogether for employers; and
c. introducing a gradually increasing contribution from general revenues until it covers one-third of the program's cost.

The past service costs of the system and costs associated with its social aspect should be borne through the general tax system by society as a whole.

I have no exact recommendation as to levels--we are not actuaries. But these two methods, i.e., higher earnings base and removing it for employers *and* introduction of general revenue, should be used in combination. In the short-run (not just the next few years but for the next quarter century until 2000), we should restore the trust fund so that it is adequate to meet any likely contingency such as another deep recession. HEW economists, Paul N. VandeWater and Lawrence H. Thompson, have suggested that the fund should equal 60 per cent of annual outlays. I agree with others (e.g., former Commissioner Ball and Coopers and Lybrand) that except for immediate decoupling, we should *not* take hasty action now to deal with the deficit that may or may not exist in the next century and the size of which we can only speculate about now. There are too many unknowns, economic and demographic. There will still be plenty of time for necessary action as we see how these trends develop. We should, of course, take whatever action is necessary in good time but, except for the short-run measures and decoupling, that time is not now.

CONCLUSION

There is a danger of being mesmerized by statistics and actuarial projections and failing to recognize the fundamental principle. In 1935, the nation made a commitment that society--first through payroll taxes and later through general revenue--would try to meet the needs of the elderly. We have expanded on that commitment in various ways, though not enough. There is an unfinished Social Security agenda. As a nation, we must hold fast to the commitment we made more than forty years ago. We will be best able to do it if we maintain full employment and a prosperous economy and if we all recognize that we cannot shirk our responsibilities, now or in the future, to those who look to Social Security to meet their legitimate needs.

PROBLEMS IN SOCIAL SECURITY FINANCING

ROBERT J. MYERS

In recent years, a number of articles have appeared in the public press as to the serious and significant financing problems of the Social Security system (Old-Age, Survivors, and Disability Insurance, or OASDI). These occurred following the release of the 1974 Trustees Report, which indicated a long-range actuarial imbalance amounting to an average of almost 3 per cent of taxable payroll. The 1975 report showed an imbalance of about 5.25 per cent, while in the 1976 report there was an increase to almost 8 per cent.

In some instances at least, the writers of these critical articles were not well informed on the subject of Social Security financing, and they made statements implying that the financing problems were of a very immediate cash-flow nature. This, in turn, could imply to the readers that payments of benefits in the near future were in jeopardy. Of course, part of this cry of crisis may have been due to the proclivity of journalists to be sensational.

Let us first look at the situation and describe what the problem is and how serious it is. Then, let us go on to explain how it came about. Finally, certain possible solutions to the problem will be shown followed by a discussion as to the overall effects and desirability of each one.

GENERAL ACTUARIAL PRINCIPLES APPLICABLE TO OASDI

The actuarial soundness of the OASDI program is defined and determined in a somewhat different manner than is applicable to private individual insurance or private pension plans. Specifically, the valuations for OASDI are made over a seventy-five-year period. Measurement of the financial situation is made by comparing the average value of the future tax income for the period (expressed as a percentage of taxable payroll), with the average cost of the outgo for benefits and administrative expenses (similarly expressed as a percentage of taxable payroll). Of course, one necessary condition is that, in each future year, the resulting trust fund balance for both the OASI Trust Fund and the DI Trust Fund should never fall below zero -- a condition which conceivably could arise, even though by the end of the period the trust fund balance would be positive.

The resulting actuarial balance would turn out to be exactly zero--in other words, the system being in exact balance--only by the greatest coincidence. It has always been postualated that, if a small negative balance were present, nonetheless the situation could be described as satisfactory, and the program could be considered as being in actuarial balance. This approach was taken as a result of the realization that the actuarial cost estimates could not be completely precise and that variations would be quite possible, over the long range, between the assumptions and the experience.

For several years following when the valuations were first limited to a seventy-five-year period (beginning in 1965, as a result of the 1963-64 Advisory

Council on Social Security so recommending), this margin of permissible variation was established at the prudent level of 0.1 per cent of taxable payroll--approximately a 1 per cent relative variation when measured against the total cost of the system. When the 1972 Amendments were enacted, with their very extensive liberalizations of the program, the Congressional reports redefined the allowable margin by increasing it fivefold to 0.5 per cent of taxable payroll. In lieu of this--and in the author's opinion much more desirably--Congress should have recognized the long-term financing situation existing then by increasing the tax rates at appropriate future periods.

PRESENT LONG-RANGE FINANCING SITUATION

Now, turning back to the current situation, as indicated in the 1976 Trustees Report, the long-range actuarial balance of the OASDI system is shown to be in a deficit position to the extent of 7.96 per cent of taxable payroll. This is obviously far above either the original allowable limit of variation of 0.1 per cent or the subsequently increased limit of 0.5 per cent. In fact, this currently estimated actuarial lack of balance represents a 73 per cent relative deficiency when measured against the future scheduled taxes.

About half of this sizable long-range financing deficiency is due to a flaw in the benefit-computation method under automatic adjustment procedures. Under likely future economic conditions, the ratio of the initial benefit awarded a retired worker to his earnings just before retirement will be much higher for future retirees--and increasingly so--than for current retirees. This is also true for disability and survivor beneficiaries. In the past, such ratio has been relatively stable, being higher for low earners than for higher ones. For example, for those who have had earnings equal to the maximum taxable amounts, such ratio has been in the range of 30-32 per cent (considering only the benefit for the worker retiring at age 65 or older, without allowance for dependents benefits).

The remainder of the long-range deficiency has been due to such demographic factors as the lower birth rates (which, in the long run, mean fewer workers to support the benefits of the beneficiaries) and adverse disability experience.

It should be realized that, although there is this very serious long-range financing problem, the deficits are primarily concentrated in the later part of the seventy-five-year valuation period. Insofar as sufficient income and trust fund assets to meet obligations for benefit payments and administrative expenses on a cash income and outgo basis over the next several decades is concerned, there is much less of a problem. In other words, over the short term, beneficiaries need have no fear of not receiving their benefits as long as certain relatively small additional financing is provided.

But this is not to say that corrective action as to the financing situation need not be taken in the near future, but rather should be left for several decades hence. Instead, it is most important that this problem be given thorough and prompt study so that remedial action can be taken.

PRESENT SHORT-RANGE FINANCING SITUATION

The soundness of the program over the short-range is not measured merely by whether sufficient monies are in the trust fund to meet the outgo for benefits and administrative expenses, according to the best estimates possible. Rather, in addition, the trust fund balance should be maintained at a prescribed level. The 1969-71 Advisory Council on Social Security recommended that such a desirable level is one year's outgo and that, in fulfilling its purposes, the trust fund should never fall below a ratio of 75 per cent of a year's outgo. Here, the term "trust fund" will be used to refer to the OASI Trust Fund and the DI Trust Fund combined.

First, let us consider why any balance at all should be maintained. Essentially, this is necessary so that the trust fund serves a contingency-reserve role. It is important to note that the trust fund (actually both the OASI and DI funds separately) has no borrowing authority to meet its current liabilities for benefits if its assets are depleted.

Income and outgo--particularly the former--vary considerably over the course of a year, even without regard to cyclical business conditions. The primary reason is the effect of the maximum taxable earnings base and the flow of taxes resulting therefrom (high-paid individuals have tax liability only during the first part of each calendar year).

Second, in years of poor business conditions, income will drop sharply, as fewer people are employed, as employed persons work shorter work weeks, and perhaps as wage rates are reduced. Benefit outgo will concurrently increase somewhat, as retirements rise and possibly also as more disability awards are made. It is possible that, if there is a serious business depression, the system could weather it with a trust fund balance of far less than one year's outgo. But a balance of one year's outgo would almost certainly carry the system through any sort of depression.

Congress more or less accepted this standard as to the desirable size of the trust fund developed by the 1969-72 Advisory Council. In practice, however, the result under the 1972 legislation was that the trust fund balances over the next few years would very closely follow the bottom of the "acceptable" range (a ratio of 75 per cent of a year's outgo). When the 1973 legislation was enacted, there was even more slippage, and the trust fund ratio was estimated to decline to about 65 per cent during the next few years. The official actuarial cost estimates presented in the 1976 Trustees Report present a far bleaker picture of the trust fund falling from 46 per cent currently to about 14 per cent at the beginning of 1981. In fact, the DI Trust Fund will be exhausted in 1979, and the OASI Trust Fund in 1984 (or possibly even sooner).

Quite naturally, if it were decided to maintain a trust fund balance according to the standards developed by the 1969-72 Advisory Council, it would not be possible to remedy the situation of such considerable deficiency in just a short period. Rather, it would be desirable to do this by having a somewhat increased tax rate over a period of years so as to gradually increase the ratio to its desirable level.

Quite obviously, there might be certain political difficulties if OASDI tax rates were to be raised and if no benefit liberalizations were made at the same time. But it would seem that what is needed now is the political courage and integrity to do the right thing in connection with the financing of the program, even though this might be somewhat politically unattractive when viewed from a narrow standpoint.

WHAT CREATED THE FINANCING PROBLEMS

The short-range financing problem involving the size of the trust fund falling behind relative to its annual outgo and eventually being depleted arose for quite simple and obvious reasons. Congress substantially increased the level of outgo in 1972, but did not simultaneously legislate high enough tax rates in the next few years to build the trust fund up to an appropriate level. Then, when the actual experience as to the relative trends of wages and prices in the immediate future and the disability experience turned out to be unfavorable, no action recognizing this by increasing the tax rates currently was taken.

The long-range financing problem of an actuarial deficit of almost 8 per cent of taxable payroll arose through a number of complex causes. First, in 1972 Congress permitted a significantly higher deficit to be considered "acceptable," instead of incorporating a higher tax schedule into the law (at least in the long-distant or ultimate years). Then, when the current economic trends proved to be unfavorable from a cost standpoint and higher costs were estimated, Congress did not recognize this in the long-range financing by making appropriate increases in the tax schedule.

Another important element in the growth of the significant change in demographic conditions which has occurred in the last few years (primarily as to lower fertility, which brings on the high-cost ultimate situation much sooner than would otherwise be the case).

In hindsight at least, such recognition (which produces higher costs) should have been made in 1972 when the procedure of using dynamic economic assumptions was introduced (which, under the particular assumptions made, produce lower costs). Such a counterbalancing effect often occurs when revising all important cost assumptions simultaneously, as would seem to be desirable practice, instead of changing only one element at a time.

Other important elements involved in the higher deficit are the increases in both age and disability retirement rates in the last few years. The higher age retirement rates are probably the result of the growing trend toward early retirement, especially due to more compulsory retirement requirements (and at lower ages) and to more pension plans providing liberal early-retirement benefits. The higher disability retirement rates may be due to the somewhat lower level of economic activity in the last few years and also possibly to the more lax determination of disability under the OASDI system.

In considering the actuarial deficit over the long-range under OASDI, it is important to note that a most important factor is the economic assumptions as to future trends of wages and prices. Only slight changes can have very significant effects as a result of the manner in which the benefit formula operates under the automatic-adjustment provisions.

Certain figures have been developed to show what results will arise under the automatic-adjustment provisions for various possible future conditions. For example, assume that, each year after 1974, wages increase by 5 per cent and that the Consumer Price Index rises at an annual rate of 3 per cent (which were the assumptions used in the 1974 official actuarial cost estimates for the program). Under these circumstances, the primary benefit payable to a person retiring at age 65 in the year 2000 who had maximum creditable earnings in all previous years (back to his youth) would be $1,257 per month, and the taxable earnings base for the previous year would be $44,700, yielding an annual employee tax of $2,883 at the 6.45 per cent rate then called for according to present law (for both OASDI and Hospital Insurance).

The foregoing figures are, at first glance, truly alarming, but they must be considered in relative rather than absolute terms. After all, the assumed wage level will be about 3.4 times higher than in 1975. The primary benefit payable for this case will represent only 33.7 per cent of the maximum taxable earnings in the previous year, a ratio somewhat in excess of the ratio prevailing in recent years (about 30-31 per cent). Furthermore, the price level resulting from these assumptions will also be significantly higher--about twice as high.

Even more startling figures result when these projections are carried out to the year 2050. The primary benefit for the maximum-earnings case would be $16,220 per month, and the taxable earnings base for the previous year would be $514,200. The ratio of the benefit to the earnings base would then have risen to 37.9 per cent, which indicates a significant rise in the relative benefit level. In other words, under these economic assumptions, the benefit structure gets "out of control." Correspondingly, the cost of the program rises, and higher tax rates are required, especially in the long run, than are currently scheduled. The official actuarial cost estimates made in 1974-76 showed such a result.

It is important to note that stability of the ratio of the primary benefit to the earnings in the year prior to retirement at age 65 (sometimes referred to as the "replacement ratio") prevails only when the assumed increase in the CPI is about half as large as that in wages. And such condition did prevail for two decades before the mid-1960s, when the technical work in developing the automatic-adjustment provisions was done. But in recent years the CPI has been increasing almost as rapidly as wages (and in some years, more).

If the CPI increases just half as fast as wages, the ratio of the primary benefit for the maximum-earnings base to the earnings base in the year before retirement at age 65 is very close to 32 per cent in all future years for the assumed wage increase being 4 per cent per year. The ratio in the past has generally been between 30 and 32 per cent.

If the rate of increase of wages is more than 4 per cent, stability will occur, but at a lower level (and vice versa). For example, for a wage increase of 6 per cent per year and a corresponding CPI increase of 3 per cent, the ratio levels off at about 28.5 per cent.

If the CPI increases more rapidly than only half the increase in wages, the benefits will become an increasingly higher proportion of final wage. For example, for the maximum-earnings case, the ratio of the primary benefit in the year of retirement to the wage in the preceding year under the assumption of the CPI rising 4 per cent per year and wages rising 5 per cent per year is 42.9 per cent for the retirant in 2000 and 62.7 per cent for the retirant in 2050.[1] Such a developing trend would have serious effects on the financing of the system or, to look at the other side of the coin, on the

1. See Albert Rettig and Orlo R. Nichols, "Some Aspects of the Dynamic Projection of Benefits under the 1973 Social Security Amendments (P.L. 93-233)," *Actuarial Note No. 87*, Social Security Administration (Apr.1974).

reasonableness of the OASDI benefit structure and its effect on the private-sector role in the economic security field.[2]

Conversely, if the CPI increases less rapidly than half the increase in wages, the benefits will become a lower proportion of final wage. In what seems the unlikely event that the CPI will increase only 2 per cent per year as against 5 per cent for wages, the ratios for 2000 and 2050 would be 26.5 and 23.7 per cent, respectively.

As a result of the volatility of the benefit structure due to the manner in which the automatic-adjustment provisions operate under varying economic conditions, the financial situation of OASDI is similarly subject to great variations under the present benefit structure. The next sub-section will discuss how changes can be made in the automatic-adjustment provisions to eliminate (or at least alleviate) this instability, as well as how to solve at least partially the current financing problem.

POSSIBLE SOLUTIONS TO THE FINANCING PROBLEM

Quite obviously, the financing problem of OASDI as it arises under the latest official cost estimates (made in 1976) is either to provide additional financing or to reduce benefit costs, or a combination of both.

There are two possible aspects to reducing benefit costs. One aspect is to diminish the real level of benefit protection; it would seem that this would be difficult, at least from a political standpoint, and certainly if there were to be an immediate cut in benefits. A gradual reduction in relative (but not absolute) benefit

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2. See Geoffrey N. Calvert, *New Realistic Projections of Social Security Benefits and Taxas* (New York, Alexander and Alexander, Inc., 1973).

amounts would be possible. The other aspect is to prevent any unintended "real" increases in the benefit level, such as those described in the previous section in connection with the long-range effect of the automatic-adjustment provisions under certain possible future economic trends (which now seem to be not merely possible, but also quite likely).

Certainly, it would seem not only reasonable and proper, but also politically feasible, to reduce the future benefit level under OASDI so that it will not expand as it apparently will under present circumstances (i.e., due to the automatic-adjustment procedures in the law combined with the likely future trend of wages and prices), but rather so that it will maintain about the same relative level in the long-distant future as it has in the past. If such a change were made, the long-range actuarial deficit of the OASDI program would be approximately cut in half. It would seem that this would be the first step in the process of reestablishing OASDI on a sound financial basis.

There are several ways by which the benefit structure of the OASDI program, including the automatic-adjustment provisions, can be changed so as to bring it under control by maintaining the benefit level at approximately its current level, regardless of future economic conditions. Perhaps the simplest method, although it will not assure complete stability at the present level and will result in a stable condition to a considerable extent, is to merely modify slightly the present automatic-adjustment provisions. The factors in the benefit formula for future retirants would be increased by the *lesser* of 50 per cent of the increase in wages or the increase in the CPI (instead of solely by the increase in the CPI, as at present).

Another method, which will probably give the best technical results, although it appears to involve a completely different and radical approach, is to adjust the actual earnings record so as to put it in current-dollar terms. Thus, wages of earlier years would be increased to reflect the changes in the general earnings level from those years up to the year for which the computation is made (i.e., at the time of the worker's retirement, disability, or death). This procedure of adjusting the earnings record is followed in a number of foreign systems, such as those of Sweden and West Germany. Under this approach, commonly referred to as "decoupling", which was developed by the 1974-75 Advisory Council, the benefit formula would be something like 91 per cent of the first $175 of average monthly wage, plus 33 per cent of the next $875, plus 10 per cent of average wage in excess of $1,050 (with the average wage being computed in exactly the same manner as under present law, except from the adjusted earnings record). Thus, the flat dollar figures would be adjusted upward yearly for future retirees according to changes in the earnings level.

A third method, which may also be referred to as decoupling, was developed by a panel of actuaries and economists established by the Congressional Research Service. The general basis of this approach is similar to that of the wage-indexing method described above, except that the indexing of the past earnings record is done by the CPI. This method under probable future economic conditions will result in decreasing benefit levels relative to final earnings (although increasing ones in monetary terms). The author believes that this approach is neither desirable from a pension-planning standpoint or politically feasible.

Under all three methods of modifying the computation of benefits described previously, there would be no change in the method of adjusting benefits for those on the roll, which would continue to be done according to changes in the CPI. In other words, all three methods relate only to the initial computation of benefits.

Even if satisfactory procedures can be adopted for stabilizing the benefit structure by decoupling by wage indexing, there still remains an actuarial deficit of about 4 per cent of taxable payroll. Part of this deficit could be met by reducing over time the relative benefit level by about 10 per cent (which was the minimum extent of the over-liberalization of the benefit level in the early 1970s); this would be done gradually for new retirees, so that there would never be any reduction in absolute benefit amounts. It is also possible that disability-benefit costs could be lowered by tighter administration. Also, if retirements are deferred, the cost of the system would be lower, or if the minimum retirement age were gradually increased from age 65 (to, say, 68).

However, even if these cost-reduction elements were to occur, the deficit would have to be met at least in part by additional financing. There are several methods by which this could be done.

There are several sources of additional financing that could be obtained for the OASDI system. One source would be to increase payroll taxes at appropriate times in the future, as required according to the current-cost method of financing now applicable. Another source would be to increase the maximum taxable earnings base, either on both the worker and the employer or on the employer alone. A third source would be to have a government contribution or subsidy from general revenues. Let us now consider each of these three sources in turn as to their desirability.

The arguments in favor of a government subsidy to provide the additional financing are several. Some argue that the existing financing basis is regressive, because the tax is levied on only up to a certain amount of earnings and because, moreover, the employer tax is "really paid by the employee through lower wages." Therefore, such persons advocate obtaining financing from general revenues, which they assert are derived by more so-called "progressive" taxation.

Others quite realistically recognize that present payroll tax rates are quite high and are attracting considerable adverse comment and reaction from the general public. They believe that these criticisms and objections can be answered if further financing comes from a government subsidy, which, being indirect, appears to be paid always by somebody else. Basically, they wish to expand OASDI so that it provides virtually complete economic security for virtually all people in the country, and they believe that they can achieve their goal largely through the government-subsidy route because it is so "painless" and is not generally apparent to the taxpayers who will have to pay the cost.

In my opinion, the government-subsidy approach is extremely undesirable and dangerous. Even though it might solve the relatively small immediate financing problem that would remain after decoupling the benefit structure has been achieved, it would be only an opening wedge for future expansionist action.

There would then be the familiar argument that a precedent has been established for a government subsidy, so why not enlarge it to provide "more adequate" benefit protection.

The arguments in favor of remedying the financial difficulties of the OASDI system by increasing the maximum taxable earnings base follow somewhat along the lines of those in favor of a government subsidy. In particular, the "tax regressivity" argument is used, because the tax will seem to be less regressive as the base is increased. However, in my opinion, this argument is not valid, because the taxes are not considered in combination with the weighted benefit formula.

The expansionists also advocate increasing the earnings base, although not so much in order to obtain additional financing as to broaden the range of incomes under which OASDI is applicable and therefore should provide substantial "replacement" of earnings.

In my opinion, the financing of OASDI deficits or benefit changes through increasing the maximum taxable earnings base is undesirable, because it tends to obscure the needed financing and the higher benefit costs. Thus, such financing appears to come only from the highest-earnings groups, and there appears to be no cost for the average or low-paid worker. It may also be noted that, even if the maximum taxable earnings base were eliminated so that all earnings are subject to tax, this would not provide more than about one fourth of the financing necessary to eliminate the actuarial deficit that would exist after appropriate revision of the automatic-adjustment provisions of the benefit structure.

With further regard to proposals to increase the maximum taxable earnings base, there are three alternatives. Under one alternative such base would be increased for both the worker and the employer, and the additional earnings so taxed would provide additional benefit amounts (although at the lower benefit percentages applicable to the highest earnings). Another alternative would be to increase the taxable base only insofar as the employer is concerned, and this would of course involve no additional benefit accruals.

As it so happens, the net long-range effect of these two alternatives for increasing the earnings base is about the same. In other words, on the average, the cost of the additional benefit accruals is approximately equal to the additional revenues obtained from the increased employee taxes. Over the short range, however, increasing the earnings base on both parties provides larger income to the program than if only the base for the employer is increased (because the additional benefit outgo is relatively small for many years). But over the long range, the additional benefit accruals rise significantly, and in later years will exceed somewhat the additional worker taxes.

The third alternative would be to increase the taxable earnings base for both workers and employers, but not provide additional benefit accruals on the increased earnings (perhaps by instituting a maximum benefit or merely by not counting earnings above a certain point in the benefit computations). This approach does not seem to have much possibility of being adopted, because higher-paid workers would object strenuously to paying taxes on earnings that would not produce additional benefits.

The third source of additional financing for the OASDI system, higher payroll tax rates, has the definite advantage of clearly indicating to workers and employers the true costs involved in the existing program and of any possible liberalizations thereof. In my opinion, for this reason, such source is the only feasible and desirable one to adopt if there is a strong belief that the OASDI program should have the characteristics of an economic-security floor of protection upon which the citizens of the country can and should build further protection through the private sector.

Accordingly, in my opinion, the present financing problem should be solved first by remedying the benefit structure under the automatic-adjustment provisions, and then by providing a higher tax schedule in the law so as to take into account the apparently unfavorable experience that will occur in the future as the result of demographic changes and less favorable disability experience.

REFORMS OF SOCIAL SECURITY IN CONGRESS

EDWARD HOWARD

Let's look at first at those ranges of benefits improvements--the forms, if you will, that are being seriously discussed by Congress.

Perhaps the proposal that has the widest support is the one that has generated some of the most controversy here: the liberalization of the earnings of a patient under Social Security. Up to a certain point, earned wages do not affect monthly income under Social Security. That level is $3,000 in 1977. After that, the benefits are reduced by one dollar for every two dollars in benefits until you reach the age of seventy-two, at which point the patient is removed completely.

Literally dozens of bills have been introduced in this Congress, as in the past, to either do away with or significantly raise that ceiling. Congressman Repper has introduced one of those bills. He has fifty or so co-sponsors on his bill, which is a significant number of people. The main problem with that type of proposal is that it is expensive. It will cost seven billion dollars a year, according to Congressional Research Service, to eliminate the ceiling altogether.

Another very popular reform discussed in Congress is the inclusion of items commonly referred to as "medical appliances," that is, hearing aids, dentures, eyeglasses. Our committee strongly recommended in 1976 that Medicare be extended to include such coverage. It would cost about two billion dollars a year. There are literally scores of other improvements that are the subjects of actual bills that have either been introduced in Congress or are about to be.

On the other hand, liberalizing the home health service would be what a lot of people, including our Committee, think is a cost effective alternative to institutionalization. We should improve the disability program--I am not talking now about the Trust Fund, I am now talking about items like reducing the length of time you can process a claim and simplifying the procedures.

We should end the "living-in-sin" incentive, as we call it, that presently reduces the total benefits of two married beneficiaries of Social Security below that of two single beneficiaries.

Some measure of adequate coverage should be restored and this probably should be higher than it now is. Finally, statutes should be enacted which encourage longer work force participation by older people. Obviously, this would both aid the health trust fund because people would be drawing benefits for a smaller and shorter period of time, and help older people themselves who drastically need the income.

Our committee's major project is eliminating the mandatory retirement age of the federal government, now seventy years of age. Ironically, the chairman of the Commission on Aging, Arthur Flemming, former Secretary of HEW, violates the mandatory retirement age. He has managed for the last several years to get a waiver, signed personally by the President every year.

Not too many people are that fortunate. We want the federal mandatory retirement age completely removed, if only to set the stage for what private employers can be expected to do.

Yet these changes and improvements represent only a beginning for programs financed by these trust funds. For instance, we have not said even a syllable about national health insurance which is probably the highest priority for many people gathered in this room, and certainly for many people on our Committee.

The next question is, how is Congress reacting to these proposals? In my judgement, few, if any of these measures are going to be laws a few years from now at the end of the 96th Congress. By and large, Congress is listening to the actuarial arguments, not the social arguments. The occupation that I have on the Hill is shoring up existing programs, talking about their financial viability, using predictive charts and stopping what is often seen as the hemmorrhaging of funds for Medicare and Medicaid programs. The funds for programs have increased each year the last few years--more so than all the other health expenditures of the federal government put together. Many people are startled by that fact.

Predicting congressional behavior, especially only a few weeks into a session, is risky business. The new appointments to the Senate Finance Committee, which handles Medicare, Medicaid, national health insurance, and Social Security, who are to fill vacancies created by retirements and promotions were made only today. Not too many people know as yet how those people, and the new people in the House Ways and Means Committee, will act. We have some bits of tangible evidence, though, and I will outline them very briefly for you.

On the first day of the new Congress, the chairman of the House Ways & Means Health Subcommittee on Health introduced one major bill, entitled *Medicare, Medicaid Anti-Fraud and Abuse Amendments*. As a matter of fact, those two subcommittees have scheduled further joint hearings on that bill.

Another item: along with the Senate Committee on Aging, those same two sub-committees have scheduled hearings for next week on fraud and abuse under home health programs of Medicare and Medicaid. Earlier today, in New Orleans, Senator Herman Talmadge who chairs the Health Subcommittee of the Senate Finance Committee, told a group of doctors, and here I quote: "I expect the bulk of the activities in the health financing area in this Congress to focus on Medicare and Medicaid administrative reimbursement changes." In the same speech, Senator Talmadge lists his two top legislative priorities as 1) the administrative reforms I just quoted you and 2) his version of the anti-fraud and anti-abuse amendments introduced by Congress.

Two days ago the House Social Security Subcommittee agreed in its organizational meeting on a tentative list of priorities for legislation. Let me read you the top three items on that list: 1) short term trust fund financing problems; 2) long term trust fund financing problems; and 3) the drastic shortfall in the disability trust fund.

There are many reasons for this entrenchment. The immediate problem of the trust funds dominates the thinking of most of the members of Congress because their constituents are concerned about it--they come up to them and say, "Am I going to get any benefits two years from now?" Furthermore, the new Congressional budget process makes Congressmen put this all together in one package every year. They have to determine the deficit. They know what the deficit is going to be in order to pass President Carter's economic package. They are having to vote to increase the deficit by every one of those dollars, and it hurts, and it is visible. The most important factor in this equation, though, is still unknown.

Speaking about the postures taken on all of these issues by the Carter administration--in the area of the short term changes in the Social Security System--whether the wage base ought to be raised, for whom, and by how much, whether to go to General Revenues immediately, what timing should be, etc.--both the House and the Senate seem to be waiting for the Executive Branch to take a position. It is my impression, based on limited contacts with the Carter Administration, that many of these issues have yet to be considered by them. Many of us on the Hill, as a matter of fact, have perceived a lack of interest by the Administration in taking the lead, at least in the benefit issues, both on the experience and background of the people appointed, and on the public statements of the top leadership, Mr. Caliafano.

President Carter has told his Cabinet that they ought to re-think any programs they might have scheduled for expansion.

Now where does all this lead for the concerned citizens, like the people who are participating in this conference?

I suppose I could go down the list of proposals either for benefit improvements or actuarial adjustments giving an 80 per cent chance that decoupling will be enacted this year, a 97 per cent chance that they will correct the disability trust fund problem, a 2.5 per cent chance that they will enact Senator Fraser's homemaker bill. However, I think that, from your point of view, despite the general thrust of what I have been saying, outcomes of these public policy discussions have yet to be determined, at least most of them.

What you need to do, no matter what your point of view, and we have heard some widely divergent ones expressed here today, is to get into the act. Do not wait for Congress to start making up legislation and then cry about what you see in it. If you want the retirement earnings ceiling relaxed, talk to your senators and representatives. If you are concerned about the inequitable way in which men and women are treated under the system, fire off a letter or a wire.

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