FUTURE DIRECTIONS IN SOCIAL SECURITY

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
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FUTURE DIRECTIONS IN SOCIAL SECURITY

THURSDAY, MARCH 20, 1975

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to recess, at 2:30 p.m., in room 4221, Dirksen Building, Hon. Frank Church, chairman, presiding.

Present: Senators Church and Clark.

Also present: William E. Oriol, staff director; David A. Affeldt, chief counsel; John Guy Miller, minority staff director; Dorothy McCamman, consultant; Margaret Fayé minority professional staff member; Patricia G. Oriol, chief clerk; Kathryn Dann, assistant chief clerk; and Gerald Strickler, printing assistant.

Senator CHURCH. The hearing will come to order.

I would like to note at this time that Senators Williams, Pell, and Tunney have statements which they have asked to be inserted in the record.

[The statements referred to follow:]

STATEMENT BY SENATOR HARRISON A. WILLIAMS, JR.

Mr. Chairman, before proceeding with my statement, I wish to commend you for conducting this timely study into "Future Directions in Social Security."

The committee's hearings during the past 2 years have been especially valuable in updating public understanding about the Social Security system.

In addition, they have provided a useful stock-taking of where we are and where we should be going.

I am especially pleased that you have elected this course of action to build upon the work of the committee's earlier inquiry into the "Economics of Aging," which occurred when I was chairman.

The hearings, working papers, and reports from this comprehensive inquiry helped to pave the way for major reforms for Social Security.

They also documented the extent of the retirement income crisis which affected millions of older Americans and threatened to engulf many more unless positive action was taken on several fronts.

I am pleased that the Congress responded in a very positive way with important improvements, including:

A cost-of-living adjustment mechanism to help protect Social Security beneficiaries from inflation.

Substantial Social Security increases for elderly widows, one of the most economically disadvantaged groups in our society.

A new special minimum monthly benefit for persons with low lifetime earnings and long periods of covered employment.

Liberalization of the retirement test.

But most importantly, the Congress enacted sizable across-the-board benefit increases to enable large numbers of older Americans to escape from poverty.

However, the social security system still needs to be perfected. And our Nation must take a long and careful look as we chart its future directions.

This becomes all the more important because Social Security affects almost every family in the United States in one form or another.

It is essential, therefore, that Social Security continue to be built upon sound policy and financing considerations.

And the subject of today's hearing—the impact of inflation upon the elderly—is another important chapter in the committee's overall study.

For my own part, I believe that the cost-of-living adjustment mechanism was a landmark achievement for the social security program.

But, it can be perfected further.

One needed improvement, it seems to me, is to develop a special elderly index to reflect more accurately the impact of inflation upon older Americans. The committee staff study clearly shows that some of the steepest price increases have occurred in areas where the elderly have their greatest expenditures: food, housing, transportation, and medical care.

In addition, I believe that there should be at least two cost-of-living adjustments in a year when prices rise rapidly. Under present law, social security beneficiaries may receive only one adjustment in a year—whether prices increase 3 percent or 15 percent.

Other improvements may also be needed to strengthen the automatic escalator provision. And, I shall look forward to the comments of the witnesses on this issue, as well as other related subjects.

STATEMENT BY SENATOR CLAIBORNE PELL

Mr. Chairman, I welcome the opportunity to participate in this importance to every American: few questions have the potential to security.

The financial status of the social security trust fund is of great importance to every American: few questions have the potential to generate such real concern, not only among the 20 million older Americans who receive benefits under Social Security, but also among the millions who contribute to the trust funds for their own retirement and security.

Today, I would direct my questions along a slightly different but strongly related line, to Mr. Robert Ball, a former Social Security Administration Commissioner, and to Mr. Wilbur Cohen, a former Secretary at the Department of Health, Education, and Welfare. My concern in this instance is directed to several administrative practices within the SSA: first, the process by which lost, stolen, or delayed benefits checks are replaced and the shocking time lag which elapses before they are replaced.

Second, my concern is directed to the unaccountable and unpardonable disparities in the time it takes the SSA to handle disability insurance appeals among the 10 regions, with my own region in New England taking more than 2½ times what it does in another region to process an appeal. In fact, I have just learned yesterday that despite assurances last summer from social security bureaucrats that the disability appeals waiting time was being shortened throughout the Nation, the national average waiting time of 163 days last April had stretched to the unbelievable figure nationally of 213 days last December. Considering that we are talking about more than 60,000 appeals each year, this delay is intolerable. Third, I am concerned about the practice of withholding the full amount of a benefit check or several checks in a row, to compensate for accidental overpayments to a beneficiary.

I resubmitted earlier this month the Social Security Recipients Fairness Act, which would legislate a solution to each of these problems. I cannot tell you the personal tragedy that I have found among my constituents when an individual gets caught between the bureaucratic slowness of the SSA, its subagencies, and the Treasury Department. I would ask you each today for your evaluation of these three problems based on your experiences and for your evaluation of this legislation as a solution to these problems. Of course, I am always open to suggestions as to making this bill more effective, but whichever way we go, these problems have to be solved right away.

STATEMENT BY SENATOR JOHN V. TUNNEY

I would like to take a moment to commend Senator Church and the staff of this committee for the timely planning of this proceeding. I believe we are now on the way to clearing the air of confusion about the future of our social security system.

My office has been deluged with letters from distraught Californians concerned that either their payroll taxes now being paid into Social Security will go for naught, or that the Social Security benefits which they now receive will be cut off due to a collapse of the system. From younger workers, I hear that they do not want to be overly taxed for benefits which they will receive in the distant future, particularly in this time of inflation. They feel they are losing buying power today, for what may be nothing in the future. From senior citizens and others receiving social security benefits, I hear that they cannot survive without the full 8.7 percent cost-of-living increase which the President now wishes to withhold.

The average comprehension of the workings of the social security system and its financing is less than adequate. Fears about the failure of the OASDI program are hard to allay. I am hopeful that the net result of these hearings will be a new awareness of the future of Social Security which can be transmitted to those millions of Americans now confused, frightened, and even angered by prophecies of failure of our most important domestic retirement system.

Senator CHURCH. We will now proceed. Our first witness today is Nelson H. Cruikshank, president, National Council of Senior Citizens.

Mr. Cruikshank, we are happy to welcome you to the committee once again, and we look forward to hearing your testimony.

STATEMENT OF NELSON H. CRUIKSHANK, PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. CRUIKSHANK. Thank you, Mr. Chairman, members of the committee. I am very happy to have the opportunity to take part in these continuing discussions on the future directions of Social Security. They started at a time when it seemed to some people that they were rather abstract, but the discussions have gotten more pertinent as time goes on, as there are discussions among the public, discussions in the Congress, et cetera.

Mr. Chairman, I have, in compliance with your request, submitted a full written statement.

There is another witness this afternoon; I know the Senate is busy. If I may have your permission, I would like to submit my prepared statement for the record and make some summary remarks.*

Senator CHURCH. That will be fine.

Mr. CRUIKSHANK. If there are any questions, I would be happy to address myself to them.

I am interested in this continuing discussion, and, as I said, it has gotten more pertinent and more timely as time has gone on, because there is so much discussion, some of it is rather distressing.

UNJUST CRITICISMS OF SOCIAL SECURITY SYSTEM

We detect there are some comments about the Social Security system appearing in print that are not helpful to the system, and there are some perhaps who would want to replace the system or destroy it.

There are others who seem to be misinformed about the nature of it.

Some of the comments about the future costs, and the dire threats of the system going broke, are projections into rather ridiculous positions of figures that are appearing in the actuarial studies.

They take these projections and carry them on to the absurd point in attempting to prove the social security system is bankrupt.

I have seen projections along this nature relating to the population increase of frogs, pointing out that if they multiply, with every female frog laying 10,000 eggs or something, in the year 2050 we will all be wading up to our knees in frogs.

If you could just take the projections of those figures, they are mathematically correct. But we know that before that would ever happen, other forces would come into play, and the same is true—not speaking in ridiculous terms—of Social Security. The *Wall Street Journal* has made projections showing that if the present provisions of the act were to stay unchanged, and that if the rate of inflation would continue much as we have seen it in the last few years, by the year 2030 most social security recipients would be receiving more than they had ever received in wages. Roy Ash, Director of the Office of Management and Budget, made the prediction that nearly a half of the gross national product of the country would be made up in social insurance benefits.

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*See p. 942.

Well, perhaps these are mathematically correct projections of a straight line progress on a chart by somebody, but there are forces that can be brought into play to prevent the system from getting into this situation.

There are other commentators on the system who point to the demographic changes that are indicated by present birth rates, and the indicated decline in future birth rates, and the change of the age distribution in our society. These commentators point to the dire consequences of these changes and predict very few productive workers in contrast to the nonproductive people. Or they usually make it in terms of the number of people of retirement age compared to the number of people in the working age bracket—from 20 to 65, to take the arbitrary figures—to show how this will be all out of balance.

Well, the implications of some of these writings concern us. They do not say so, in so many words, but the implication is that if we did not have the Social Security system, these things would not happen: the terrible burden of all of these older people that is going to result from the declining birth rate and, therefore, the proportional increase in the number of older people in the population. But we have to remember that if these changes are in fact going to take place—and I do not deny that they are, although demographic prophecies have not always been borne out in the past—the problem is with us. If we are going to have a larger number of nonworkers compared to the number of workers in our society, that is not as a result of the social security system.

The social security system is the answer, not the problem.

Now, it may be in many respects an inadequate answer to the changes that are forthcoming, and, if so, we will have to correct it. We may have to enlarge it, we may have to refinance part of it; but so far it is the best answer to the problem.

Causes of Financing Problems

In short, the problems of financing our Social Security system arise from other factors.

Now, unemployment is one of them; the tremendous increase in the unemployment rate, now officially at 8.2 percent of the work force—I think actually it is higher than that—of people who would be available for jobs and would go into jobs if they were opened.

It is higher than 10 percent. There is actually a great deal of concealed unemployment, it is our contention. Regarding the aspect of early retirement, we note that the number of people retiring at age 62, taking a substantial reduction in benefits amounting to almost 20 percent, has greatly increased in this period of recession.

Now, the Bureau of Labor Statistics takes all of these people out of the labor force, which is the base on which they compute the percentage of unemployed, and we contend there is a great deal of concealed unemployment in these early retirements. But what I am pointing out is that as this causes a reduction in the revenues of the social security system, it is not because the system is there that it is suffering this impact. It is because of the unemployment, and then of course there is today's double-digit inflation.

That is an economic factor that is characteristic of our whole society. It is not there because there is Social Security. It has its impact on Social Security, but it cannot be blamed on the social security system. If in the long run these demographic changes do take place, again, by no stretch of the imagination can these changes be attributed to the social security system.

These matters were considered, as you know, and as you have had witnesses here in the preceding days of these hearings from the Advisory Council on Social Security, I would like if I may, Mr. Chairman, to introduce, if you have not already had it introduced in your record, the full text of the supplementary statement and the dissenting views of the Advisory Council report by Rudolph Danstedt,* who was a member of that Advisory Council and is on the staff of the National Council of Senior Citizens.

Senator CHURCH. I do not believe we do have that in the record, and it will be included.

Mr. CRUIKSHANK. It is attached to my statement, Mr. Chairman, and I appreciate your willingness to include it.

OUTFLOW WILL EXCEED INFLOW

Now, there are also many dire predictions that have been drawn from the fact that there may temporarily be a period of time—this year, next year, and possibly the year following—when the outflow from the trust fund will exceed the inflow.

We do not think that is a catastrophe. The social security trust funds have over the history of the system changed in their function.

When the system was first laid down and developed, it was contemplated that there would be a very large surplus built up.

The contribution rates were established at a low rate, not only at a low base of 1 percent on $3,000 to start with, knowing that that would not pay the full cost of benefits in future years.

Up through the 1950's, this concept of a reserve fund was maintained, depending on the interest to the fund to make up the difference between income and outgo. This was in a sense a form of contribution out of general revenues.

As the whole debt structure of the U.S. Government changed, however, and as we began to contemplate the effects of the change in the debt structure that resulted from the war debt—which certainly could not have been taken into account at the time in 1934 and 1935 when the plan was being developed—a change in the concept of the trust fund took place. This was written into law and reflected in changes, and now the trust fund is considered not as an income producing factor but is essentially on a pay-as-you-go basis while recognizing that you cannot always anticipate down to the last dollar the income and the outflow in any fiscal year.

This is a reserve fund, a "cushion," and a cushion is to be just that: so if we draw on that reserve fund for a few years, it is not catastrophic.

*See appendix, item 1, p. 961.

That is exactly what it is there for and that is its purpose, outside of the fact that the interest on the trust fund, the relatively small contingency fund, now more than twice pays the total cost of the administration of the fund, so that more than 100 cents on every dollar of contribution goes out in benefits in this system. But outside of that contribution—the interest on the trust fund paying the cost of administration—the system is on a pay-as-you-go basis. However, with this cushion, there will be years when outlays will exceed income, as has been the case during this past year. So we do not think it is any catastrophe at all if there are a few years when the fund shows a temporary deficit.

Now, we do recognize that there does need to be some strengthening of the financing, and we break this down into two levels: the short-run factors and the long-run factors.

These are not just differences in years. These are differences in the concept of the financing, because the estimates on the costs of the fund become different in kind as you proceed into the future years, and I will comment on that just a little more.

Meeting Short-Run Deficits

We would propose that the short-run deficits be met in the following ways: Increase the base on which both contributions and benefits are computed, up to $24,000 in 1977 and then, in stages, up to about $28,000 or $29,000.

Now, the system makes money every time you increase the wage base. This is true to a decreasing extent because fewer and fewer workers are affected, but it does help meet a deficit.

Further, we propose that the tax, the Social Security tax, relate to the employer's full payroll and not to just the part on which benefits are computed, the part that is taxed.

It seems like, to some people, talking about a wage base, $28,000 or $29,000 is an exorbitant amount; but actually it would cover just about the same proportion of the total wages that $3,000 covered in the year 1935—40 years ago this summer—when the act was first passed.

At that time, although it seems difficult to believe, $3,000 covered the total wages of 96 percent of the people under the system. Today you would have to have very close to 10 times that amount to cover the total wages of 96 percent of the people under the system.

The intent of Congress was to cover practically all earnings, excluding only those extraordinary earnings of very high-priced executives and movie actresses, et cetera. Very, very high wages were the only ones expected to be left out.

All ordinary workers wages were supposed to be covered.

Now, we would like to see about two-tenths of 1 percent of the Medicare tax transferred to the cash benefit tax, because if you would raise the wage base, then the Medicare program would be overfinanced.

We do not support the proposal of the Advisory Council to shift the entire burden of Medicare or to shift the income of the earmarked Medicare tax over to the cash benefit program, in order to avoid raising the wage base, and then paying the Medicare costs out of general revenues. We do not want to do that, because we believe it desirable to maintain the contributory system, or principle, across the board in all parts of the social insurance program.

Now, unfortunately, I was not able to be here yesterday and the day before.

Yesterday I was engaged in a very interesting and exciting colloquy, along with Commissioner Ball, with the editors of the editorial page of the *Wall Street Journal.*

It was interesting to me that they were interested in finding out more about the social security system.

Some of them cynically expressed the wish that they had found out more before they wrote their editorials rather than after—but we were happy to have a chance to talk to them anyway. That is the reason I could not be here. I understand that Mr. Van Gorkom indicated he thought that the payment of the Medicare system all out of general revenues would inevitably lead to making that a welfare program. Others have suggested, and I read the *Congressional Record* showing there is some indication from some Members of Congress, that any contribution out of general revenues would inevitably change the system.

Now, the experience of foreign systems does not support this notion.

Supplemental Financing From General Revenues

Other industrial nations, in their social insurance systems, have some support of the system out of general revenues, and they still have been able to maintain the principle of a contributory system. I would like to emphasize that, while we believe there should be support for the system out of general revenues, we believe it is entirely practical and has been proven to be practical, if you do not shift the entire cost to general revenues but have general revenues allocated to meeting a certain part of the costs, it is entirely possible to maintain the principle of a contributory system, with the entitlement resting on that principle, just as it does now. We think that it is very important to have that established.

There are a number of ways that this can be done.

One of the ways is to base the rationale for general revenues on meeting certain costs. We suggest you base that on the meeting of the costs of past service credit. In any private pension plan—in the setting up of the plan and in its early stages, there is a cost that is accrued which is not properly chargeable to the wage deductions or to the wage payments that are current. So the past service credits have to come out of some other kind of funding.

Now. Congress has recognized this in the Internal Revenue Code and the tax structure—in the tax forgiveness that is given to employers when they fund these past service credits. It seems to us there is a sound basis for having the past service credits for retirement that are accrued in the social security system supported out of general revenues. And another justification that seems to us very compelling is that the very existence of the social insurance system relieves the general treasury of a great burden, because there would be many people on welfare were it not for the social security system. So there is a benefit to the entire population. Even that portion of the population which will not get a direct cash benefit in terms of retirement benefits out of the system profits by the fact that the system is there; and the States, and the counties, and the localities all profit by the fact the system is there, by reason of there being less of a burden on the welfare system. Since the society, as a whole, does profit by the existence of the system, it is only fair, it seems to me, that the society as a whole bear a part of the burden. And, as I have pointed out, this is recognized by the financial structure of other systems.

We support what Dean Douglas Brown used to refer to in his colorful way as the "three-legged stool." You can have a tripartite support—the employer contribution based on its payroll, the employee contribution based on his wages, and the contribution out of the general revenues. This three-legged stool, being self-supporting, is a lot more sound, as you can imagine, than a two legged stool such as we have now.

Financing the System in the Long Run

Now, on the long-run issues, I know that Mr. Ball is going to speak very eloquently and convincingly on these.

On long-run financing, I would point out that these changes, these assumptions on which the actuaries base their predictions, change in nature as they progress into the future.

I think there is some widespread public misunderstanding as to the function of an actuary and the significance of the actuarial science, as it is frequently referred. Some of this public misunderstanding finds its way into the discussions that take place in Congress.

The actuarial profession, as I understand it, was borne largely out of life insurance, where actuaries dealt with quite firm, solid pieces of evidence which lent themselves to mathematical projections. Their science can be quite accurate when actuaries are talking about mortality tables, rates of death at different ages, et cetera. They have to admit, however, that if there is some striking change in the health picture, even these figures can be thrown out of kilter. If, for example, we happily find a cure for cancer, the actuarial mortality tables would be thrown out of gear in a direction which we would all be happy to see, I am sure, including the actuaries. But in the popular understanding of this exact science, we rely on actuaries to make predictions 50, 75, and even 100 years into the future, where more and more their predictions depend on intangibles and items that lend themselves less readily to mathematical calculations.

For example, they predict the cost of the social security system not only on mortality tables but on such things as what wages will be 75 years from now; at what ages workers will be entering the labor market 75 years from now; at what ages will people be retired 75 years from now, at what time they will be getting married, and when they will be having children, and how many children they will be having, and how this will affect the number of women in the labor market.

Now, more and more and more, as you project the future, these calculations depend on assumptions, which can at best be educated guesses. And the farther you get into the future, the less educated the guesses can be, and it ceases to be an exact science.

Now, I do not discredit it. I do not discard it, and I would not do away with the actuaries. We must have the best estimates they can give, but we have to recognize that this is more and more subject to error as they go further into the future. And the rate of error progresses at a geometric rather than an arithmetic rate as you get out into the future.

Now, however, if their projections do take place it is only important to point out these margins of error. We should not rush now to make fundamental changes in financing because the actuaries tell us that 50 years from now the marriage rate will be this, the child-bearing rate will be this, the age for entrance into the labor market will be this, the retirement age will be this, and so forth; and therefore the system will be broke.

Take Corrective Steps in Advance

Let us say let's watch it: If we see these trends emerging, let us take corrective steps and take them in advance; but let us not be too excited about what is going to happen 50 or 75 years from now and start making drastic changes in our whole method of providing for security of families in the event of old age, or loss of income through disability, or the other factors that affect it.

Now, we think that there are some changes that need to be in the system. We know that some of these will cost money, but we also know that they are going to cost money whether we have them or not.

It is simply that if we extend this system, it is extending a method of better meeting the costs that are going to be there.

For example, we propose eliminating the monthly premium paid by beneficiaries for Medicare part B.

This does not add to the medical costs of older people. It simply means that we transfer that cost from the individual pocketbook in the system.

The same is true with the inclusion of coverage of prescription drugs and we would like to reduce the 2-year and 5-month waiting period for disability for the disabled from also receiving Medicare.

Now, we know these will add to the budget picture but we do not believe they will add to the total cost of medical care for the elderly that is borne by the population as a whole.

It is simply a different method of paying and shifts it from a private account to a public account. This does not scare us, and I think that if it were properly understood it would not scare anybody—except perhaps Secretary Simon.

Now, we are also concerned, Mr. Chairman, about the bill—S. 388—in which you and your colleagues, over 30 of them, I understand, proposed to set up a Social Security Administration, or an agency that is of quasi-independent status. While this was desirable when we talked with you about it a year and a half ago, it has taken on a new urgency. It seems to me it has taken on this urgency because we have now seen demonstrated the kind of fiscal shell game that can be played as a result of all of these things being in the consolidated budget. We see the President proposing, for example, a reduction in the statutory social security benefit. I say statutory because the Congress has enacted that social security benefits keep pace with the cost of living, and as a trade-off for that, the older people's organizations have not been in here asking for broad across-the-board percentage increases in the benefits.

We have relied on the promise of our Government that these benefits will keep pace, but the President in his budget proposals now says they must be arbitrarily reduced to 5 percent, regardless what the increase in the cost of living has been.

Now I am sure he does not do this simply because he wants to hurt older people.

He does it because in doing this under the consolidated budget, it makes the rest of his budget look better than it really is in fact.

He is not proposing to reduce the social security tax—to cut down on the income of the tax. He is only proposing to cut down on the outflow and by so doing to transfer on paper—not in reality but on paper—an amount equal to this difference, and thereby reduce the deficit in his budget. Now, this is really dishonest accounting.

I have had in my past career something to do with pension plans and their development. I have been appointed and am happy to serve on the new advisory council, which your body, the Members of the Senate set up under the new Pension Reform Act. I have had, therefore, the opportunity to study something of this act. I can say, in a very considerate way that sounds like an extreme statement perhaps, that if an employer—the head of a corporation—had a pension plan, and that pension plan had an escalator clause in it to keep pace with the cost of living, and the employer arbitrarily reduced the cost-of-living increase and then reported that amount in his annual report to the stockholder as an additional asset to the corporation, that employer would be in jail under the new Employee Retirement Income Security Act.

Now, under the law, he could not, and under the social security law, the President could not do it. But the frightening thing is that the President wants to do it, and that he is proposing to do it, and that there is an incentive for him to do it, so long as we have this consolidated budget, because it is a mixture of funds that should not ever have been mixed in the first place.

Support for S. 388

I think it is highly necessary now to make the changes in that budget pattern so that we can go back to the system that we had prior to 1969, in which the trust fund accounts were reported to the Congress by the President separately every year and distinguished from the administrative budget. It gave a more honest picture of the total expenditure, the allocation of our resources. If we would reduce our present budget format, if we would change that, as it is proposed, Mr. Chairman, in your bill, S. 388, we would remove the temptation of this President, or any future President, to deceive the public by the mixture of these two different and separate budgets.

I thank you for your patience in listening to these remarks.

I have here with me too, Mr. Chairman, some letters—just a random sampling of some of the letters we have received from individuals who write in to us.

I do not imagine they are much different from the letters that many of you people in Congress get, but they talk about the drastically reduced diets that have been forced on the elderly because of the failure of their incomes—retirement incomes unable to keep pace with the skyrocketing cost of living. Some of these letters are rather dramatic;

others are less so, but are just as compelling reading. These are first-hand personal reflections of the people out there whom we all want to help meet their very drastic and severe problems. There are only three pages of these, Mr. Chairman, and with your permission. I would like to have them introduced into the record.*

Senator CHURCH. We shall be happy to have them, Mr. Cruikshank.

I want to thank you for the very articulate presentation that you have made this afternoon.

I am especially pleased that you ended your testimony with a strong endorsement for our bill. I say ours, because you have had much to do with the genesis of this legislation that would create the independent and nonpolitical Social Security Administration.

I agree with you that it is far too much a temptation to dangle before any President, to commingle these funds in such a way as to create an illusion that a planned deficit is less than it actually is, and that is one of the sleight-of-hand tricks that is going on under the present unified budget.

Senator Clark, do you have questions?

Senator CLARK. Thank you, Mr. Chairman. I would like to ask one or two questions.

I share your comments about Social Security, Mr. Cruikshank, and as usual, you have a very clear statement.

I wondered if you might list, just briefly, those items which you would like to see covered under Social Security that are not presently covered. You mentioned prescription drugs. Could you expound on that?

Mr. CRUIKSHANK. Yes, we would like to see the elimination of the contribution in addition to that which is matched by the Government now under part B. We would like to see the combination of the part B and part A, so that it would all be financed out of the general fund.

I think the deductible amount also—the first day hospital care cost, which is now $92—could be eliminated.

This would of course shift some of the cost to the social security trust fund, but these ideas that we are going to reduce utilization by adding costs have never proven to really hit the target.

There is a problem of overutilization, possibly, but even if it is effective, it is effective only for those with low incomes. The $92 deductible does not stop any well-to-do person from being sent to the hospital or influence the person's doctor not to send him to the hospital, and so we think that that could be eliminated.

Now, prosthetic devices, as well as prescription drugs, should be included.

We also think the whole matter of long-term care needs more study and that we at least should have some pilot programs in which we meet this problem of the continuing care of people who are in a declining health situation.

MEDICARE LIMITED IN MEETING TOTAL HEALTH NEEDS

Medicare now is designed to meet the short-term acute illness cost, and it has done a reasonably good job of that. But this is not by any

*See appendix, item 3, p. 967.

means the total risk with which older people are confronted, and we need to develop some well-thought-out plans. We need to develop further alternative plans for institutional care—such as day care and home services.

The home services now under Medicare are very, very limited. They have to be directed by the terms of the act, and the Medicare administration is now ruling out and disqualifying the bills of people who need home care but because of their age, or because of the fact that they have been diagnosed as having a terminal illness, cannot therefore be brought under the definition of curative care. This is a cruelty though it is not a contemplated one—it is not that way by design. It has been now almost 10 years since we enacted Medicare, and it was partly an experimental thing; the experiment has shown some of the gaps, and we need to step in and fill some of these gaps.

On the matter of disability insurance under Social Security, we think that you need to move in the direction of an occupational disability.

When a person has reached a point in his disability where he cannot work in his occupation—and I do not mean after retirement age, I mean after 50 or even 45—where he has a physical disability that prevents him from carrying on his usual employment activities, he is, for all practical purposes in the labor market, totally disabled. Yet, under the present definition of disability, he has to prove that he is not able to take any job, whether or not the job actually exists.

Now, some of the courts have already interpreted the fact a little bit beyond what I think was the congressional intent.

The congressional intent was experimental and limited, but some of the courts have interpreted it to mean that if there is no other job available in the community for a person and there is no likelihood of there being another job, even though theoretically he could do that job if there were one, he is then under the definition of the act totally disabled. It seems to me we should move in that direction—not by the spotty and sporadic interpretation of the courts but in a consciously designed move. I would suggest that we start by putting in this occupational disability category, say, at age 50, to apply to people who are no longer able to carry on their normal activities. This would only be following the pattern of most private plans that contain a disability provision directed to an occupational disability.

Senator CLARK. I also would like to ask a question about the cost-of-living index.

I have been looking at two features: whether or not it would make sense to have a semiannual cost-of-living adjustment in Social Security, and, second, whether it might make sense to have an "older Americans cost-of-living" index, an index that refers to the cost of living for people over 65?

Mr. CRUIKSHANK. I am happy to have the opportunity to get that on the record, because I think it is important.

LAG PERIOD QUESTIONED ON COST-OF-LIVING ESCALATOR

First, when the Congress put in the cost-of-living increase escalator, they put it in at a time when the annual rate of inflation was only around 3 percent, so that the lag period was not really very costly. Also, at that time there was some question as to whether or not the checks could be recomputed.

Now, one, we know now they could. We are told you can have a faster recomputation of the checks.

Second, when you get into inflation such as we have been having, ranging 12 to 13 percent per annum, then to wait a year plus a lag period for recomputation, a person has lost much more by waiting than he has if it were just a very gradual rise, so it becomes very, very important.

If you will notice among those letters, for example, a person writes pointing out his fuel costs have gone up from a $12 unit factor to $130 per unit factor.

He cannot afford to wait a whole year for an adjustment.

Also, the expenditure patterns of older people have been shown to be substantially different from those of younger people; the Consumer Price Index is related to a standard family purchasing pattern and not to the purchasing patterns of older people.

Consequently, we believe the intent of Congress can really be implemented better; when they decided that Social Security should keep pace with the increase in the cost of living, Congress certainly meant that the increase be geared to the people for whom they were devising the act.

Now, it is shown by experience, since the escalator clause was put in effect in 1972, that it falls somewhat short when you use the general CPI rather than one that is indexed to the expenditure patterns of older people.

We think those two changes would be a substantial improvement.

Senator CLARK. Thank you, Mr. Chairman.

Senator CHURCH. Both of us will have to respond to the roll call that we have.

This might be time to thank Nelson Cruikshank for his excellent presentation.

I could ask questions, but I am familiar with the position that the Council takes on the very questions I would raise, and I am in such general agreement with it, that I do not think we need to go through the questions that I might ask.

Mr. CRUIKSHANK. If you would like to put them on the record, we would be glad to write them to you, Senator.

Senator CHURCH. I think perhaps we might do this, because there are some questions here that we might want to put in the record.*

While we are voting, possibly, Bill Oriol of the staff could put those questions to you and get your response for the record, and then, when we return, we will ask Commissioner Ball if he could testify.

Mr. CRUIKSHANK. Fine.

Senator CHURCH. Thank you again for your excellent presentation.

Mr. ORIOL [presiding]. Mr. Cruikshank, I will continue with the questions to which the Senator referred.

Yesterday, one of our witnesses, Dr. Schulz, warned against the rise of what he called pension elite.

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*For Mr. Cruikshank's reply, see appendix, item 2, p. 966.

Disparities in Pension Systems

He said that if present trends continue, the retirement disparities created by our present dual private and public pension systems will grow larger and create serious social tension.

Now, we know that you were the director of the AFL–CIO Social Security Department, and that you are a long-time advocate, one of the original advocates, of more satisfactory coverage under that system.

On the other hand, we are sure you support union efforts to negotiate private pension plans.

What is your answer to the question that Dr. Schulz posed yesterday—what is the best mix of private and public pensions to insure ourselves adequately as to retirement income?

I might add that Dr. Schulz prefaced this question by saying that there seems to be a trend to make the Social Security part of retirement security less in the future, whereas his big argument is that it should be more, and I wonder whether you would care to comment.

Mr. Cruikshank. I would agree. It might surprise you, Mr. Oriol, to go back in 1950. It is a long time back when I was the director of the Social Security Department of the AFL—that was before the Senate Finance Committee in 1950, along with James Brown, the president of the Metal Trades Department, that it would be better to have a broad social security system than to depend on private pensions.

However, I helped the unions develop pension plans, and that was only because there was a doubt in our minds that the Congress would respond in raising the wage base. We meant to insure the whole wage against the contingency of retirement or disability—not just a part of it, not just the lower part of it. But because the public did not at that time support such a comprehensive social security system, we felt then, and our unions felt, that they would have to get by collective bargaining what they had not succeeded in getting by legislation. We could not ask the unions to hold off on some kind of theoretical position, so there is a certain inconsistency about this in my activities. I saw it at the time, and I have admitted it.

Now, I know what Dr. Schulz said, and I discussed it with him privately. I think it is a very cogent point. There is so much talk about the three-layer system—that you would have Social Security, an income maintenance floor (and I get tired of that floor talk), and private pensions to take care of the rest—as if it were possible and as if it were realistic to have private pensions for all the workers in the United States.

30 Percent of Retirees Have Private Pensions

Now, the Senate Labor Committee a couple of years ago, when they first began to consider pension legislation and when Senator Williams was conducting his inquiries into pension matters, pointed out that only about a third, in fact, just under 30 percent of the people retiring had any kind of private pension at all. And by any kind, we mean any kind. There were very small benefits for some—the range of protection varied widely. And only about half of those currently working were covered by private pension plans. There were some, I believe he said 29 million workers for whom it was not possible to even think of there being a private pension plan. These were the people who needed it the most—domestic workers, migratory farmworkers, in and out itinerant workers—the people who had the least surety of a steady income. These were the people who were the least likely to have a private pension and yet, theoretically, the people who needed it the most.

Now, you get the other end of the scale, those who have pensions, who have good pensions.

Well, the organized workers are top among them. The organized workers also have the best wage scales, and because they have the best wage scales, they get the best social security benefits.

There is nothing wrong with that, but the fact is, then, that the people with the best social security benefits are those most likely to have a private pension plan. Professor Schulz says he sees a widening of the gap between these two under this system; it seems to me to be inevitable.

I do not believe that we can depend on the private pension system to meet the major income security needs in retirement for a very, very large portion of the working force.

Mr. ORIOL. I am sure you have discussed with Dr. Schulz his hope, or his objective, that the wage replacement rate be standard, a minimum of 55 percent. I think at present, as things stand now, it is about 29 percent for upper income groups and about 16 percent for those with very low incomes.

Mr. CRUIKSHANK. I think it is better than that for those people presently retired or retiring, particularly in terms of couples. I have not discussed this in detail with Professor Schulz, and I may need some correction on this, but I believe that it is better than that. When you consider couples retiring, and when you also take into account the tax factors, I think the replacement of take-home pay is above that; for those presently retiring, our Social Security system is in pretty good shape.

Its shortcomings affect those people who have retired earlier, whose benefits are based on a low wage scale, which was in effect at the time they retired, and not taking into account the rise in wages and the inflationary costs. Those are the people who are hurting the most now under our system; but with the present benefit schedules, and including the cost-of-living escalator and dependents' benefits. I think that workers have a reasonably good replacement rate under our social security system.

Mr. ORIOL. Do you think 55 percent minimum is too high?

Mr. CRUIKSHANK. No, but I think we are almost there. For the very top wage earner, I do not think we are far from that figure.

I think Commissioner Ball can perhaps tell us more accurately how near we are.

ENTIRE WAGE BASE CONTRIBUTIONS RECOMMENDED

Mr. ORIOL. You have recommended that the employer portion of the social security contribution be applied to the entire wage base instead of just to the maximum taxable wage base.

Now, critics might say that this recommendation will, (1) discourage employers from setting up private pensions; (2) increase employer costs during recessionary periods; and (3) intensify inflationary pressures. How do you respond to that?

Mr. CRUIKSHANK. I do not see how it will intensify any inflationary pressures. You take this as an additional cost now, it is one form of forced saving.

Now, of course, applied to the employer's tax, it is not a forced saving. The employee's tax is something of a forced saving.

The cost of an employer paying on the basis of his total payroll is true now to some extent for off-and-on employment.

If an employer, for example, employs two people the first half of the year, and then the second half of the year, and pays their tax on that, he is already paying without limit. He is paying on the full payroll tax by virtue of taking on another employee. So if there is a turnover, it in some instances falls that way, and as far as discouraging the private pension plan, I know there are people who take the position you should reserve a portion of this whole area of need for private enterprise.

I do not buy that at all. I do not think it is appropriate, and I think it derives from a misunderstanding of the very nature of the social security system.

People look on this system as if it were essentially a Government program, in the same way that the Government is the builder of bridges or the dredger of canals, which are Government programs.

Well, in a certain technical and narrow sense it may be, but in the essence of the program it is not.

It is a program where people are engaged in a vast self-help program, where they use the mechanics of government to participate in this cooperative self-help undertaking of meeting their need. Social security is just as much that kind of program as, say, the old friendly societies were, or the burial societies, where people belonging to a guild, or a union, or a group, in a way put in so much money to meet a certain contingency.

The only difference is they used the mechanics of government to do their collecting and their disbursements; but it still remains essentially that kind of program.

Now, to people who look on it differently, as a Government program—like digging canals or dredging rivers or building bridges—it seems it is all right for the Government to take care of that lower end of poor people who cannot afford to pay private insurance premiums. But when you get into the group that is a little better off, and you get an affluent group, then let the insurance companies come in, and the carriers, and the underwriters, and the rest of them—let them come in and get their bite. That is the area of private profit that to me reflects a total misunderstanding in the nature of the system.

Mr. ORIOL. One of the points that has been emphasized at the hearings is this strong feeling the older person has, after contributing to the system—that is one of the key features which has to be preserved. I was just asking our counsel, Dave Affeldt, if he wants to ask a question about Senator Pastore's initiative.

COST-OF-LIVING ADJUSTMENT

Mr. AFFELDT. Senator Pastore has agreed to withdraw his amendment, because Senator Mansfield has offered a substitute. As you may already know, Senator Pastore offered an amendment to provide for an 8.7 percent social security increase, effective for January.

As things now stand, the elderly would receive a cost-of-living increase effective for June.

My question to you is, would the National Council of Senior Citizens support an earlier social security increase, and along the lines of Senator Pastore's proposal?

Mr. CRUIKSHANK. Yes; on the one-shot emergency basis, we would, simply because it is consistent with our proposing to shorten the period on which the increase is payable.

Now, the civil service retirement plan already does this. They do not wait a whole year. Each 3-month period they make a cost-of-living adjustment in the civil service retirement plan.

Mr. AFFELDT. You must have a 3 percent increase, and then the Consumer Price Index must hold for 3 consecutive months.

Mr. CRUIKSHANK. Yes; that is correct. Now, for a one-shot thing, in this emergency, and it is an emergency for millions of people, the Pastore amendment, as I understand it, provides for that shortening, plus I think that he meant to pay this out of general revenue.

That raises another issue. I am not against paying it out of general revenue. I am not against introducing the general revenue concept; rather, I would prefer to see the general revenue concept brought in, not on an emergency basis but in terms of a sound principle. This makes it a tripartite system; but as far as moving the time period forward, the national council finds this proposal consistent with its philosophy.

Mr. AFFELDT. I would like to direct one other question to you and to Commissioner Ball. This refers to the statement by former Budget Director Roy Ash. He says that if income distribution programs continue to increase at the same rate during the next 20 years as has been the case in the past 20 years, and I quote now, "It could eat up more than half of our gross national product." Would you care to comment on that?

Mr. CRUIKSHANK. I commented indirectly on this in my opening remarks.

This is a straight-line projection. It is like noting the birth rate of frogs and saying that in a period of time you will be wading knee deep in frogs. But seriously, what Mr. Ash failed to recognize is that we have just gone through a catchup period, and there have been several of these catchup periods in the history of Social Security.

There were 11 years covering the depression and the war years—from 1939 to 1950—when there was no change in the benefit structure of Social Security. In the act of 1950, we had a 77 percent average increase in Social Security.

All right, if you had a 77 percent increase in Social Security every year since 1950, you would now be getting several thousand dollars a month benefit from Social Security, which everybody knows is ridiculous.

Nobody contemplated that, and nobody contemplates extending a straight-line projection into the future of a period which was one of these catchup periods, just like 1950 was a catchup period to cover the deficiencies of the wartime period. So I think Mr. Roy Ash is seeing ghosts where there are not any.

Danger of Long-Range Prophecies

Mr. Oriol. About long-range prophecies, I wonder if you noticed in the *New York Times** on Sunday, it is an article indicating that the newest census survey shows that the curve of births for 1974 has suddenly gone upward and the curve of deaths moved equally suddenly downward.

The article also warns against the danger of long-range prophecies, one reason being the number of women in child bearing ages is markedly high, and will become higher in the next few decades, so here is an early indicator that something unexpected might happen.

Mr. Cruikshank. Lots of unexpected things can happen, but we should do the best planning we can.

I have used a popular phrase, maybe too popular for the dignity of a Senate committee, but I have said the use of actuaries is like the use of the weather bureau. I do not discredit the very significant work they do. I do not plan to go on a hike or a picnic or go sailing without calling the weather bureau; but if they predict fair weather, I also carry an umbrella.

Mr. Affeldt. One further question. The Social Security Advisory Council suggested that the Congress should give consideration to raising the eligibility age for full social security benefits during the early part of the 21st century, perhaps from 65 to 68. What would be your reaction to that?

Mr. Cruikshank. Well, from the days of the early program in the Bismarck period in Germany, it was kind of arbitrary to retire at 65, which was considered to be the normal retirement.

I think there can be some elasticity. There is already elasticity, of course in 2 ways.

We allow an actuarily reduced benefit for early retirement now, and I would suggest that that be looked at too. I think we are reducing it too sharply.

There is some increment now added for those who continue working beyond age 65, and I would perhaps suggest that increment be increased.

We only consider 65 the normal retirement age—and it seems to me that is a reasonable figure—and it has prevailed in Western civilization for over 100 years now. I think if we changed it just in terms of a cost factor, we would be doing injustice to a lot of people.

Mr. Oriol. I might add we got a lively response in the mail to even the discussion of that possibility.

Mr. Cruikshank. I would expect so.

Mr. Oriol. Well, I think perhaps we better call Commissioner Ball, and we certainly thank you once again.

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*See appendix, item 4, p. 968.

Mr. CRUIKSHANK. Thank you again, gentlemen.
[The prepared statement of Mr. Cruikshank follows:]

PREPARED STATEMENT OF NELSON H. CRUIKSHANK

Mr. Chairman, members of the Special Committee on Aging, my name is Nelson H. Cruikshank. I am president of the National Council of Senior Citizens.

The National Council is a nonprofit, nonpartisan organization of over 3,000 older people's clubs in all States. We are the country's largest organization of senior citizens clubs.

I appreciate this opportunity to again present the views of the National Council as your committee continues its important study of "Future Directions in Social Security".

Because I understand that you would like us to keep our statements brief so that there will be ample time for questions and discussion, I shall concentrate on the financial aspects of our Social Security system.

It is unquestionably true that the Social Security system faces some financial problems. The short-run aspect of these problems is readily manageable. The long-run problems of financing may prove more difficult.

Without minimizing the seriousness of these problems, I urge that they be viewed in proper perspective. The cause of the problems is not the Social Security system. Economic and demographic factors are the cause.

This would appear to be obvious on a moment's reflection. But strangely enough, some of the present day critics of Social Security appear to be writing from the premise that because we have Social Security, come the year 2035 there are going to be only 30 people over age 65 for every 100 working age as contrasted to 18.3 in that group at present.

It is by no means certain that these figures will accurately reflect the population make-up 60 years from now, but if experience does bear them out it will be a problem for society as a whole. But it will not confront us because of Social Security. Social Security is the answer to the problem—not the problem itself. It is of course less than a perfect answer. And it will have to be adjusted and improved and it will have to find additional financial resources to meet such demographic changes if they do indeed occur. But the same problem will, in this event, confront every device that has been developed or may be developed in the future to meet the problem of income maintenance in old age. It will be a problem for private pension plans—a problem for private annuity programs, and for individual savings and investment programs, as well as for Social Security. It will be a problem for all these, assuming of course that America will never accept the unthinkable alternative of letting its older people starve or prematurely die of unattended disease.

Unemployment, at the same time that it cuts down payroll-tax income, increases outgo as more and more older workers lose their jobs and are forced on to the retirement rolls. But is the Social Security system the cause of the unemployment problem? Obviously not. Instead, it is part of the remedy in that it provides a source of income for those older workers who can no longer continue in gainful employment.

Inflation too greatly increases Social Security outlays now that benefits are adjusted to increases in the cost of living. But the Social Security system is not the cause of inflation. Again, it is one means of ameliorating an intolerable situation.

Today's economy—combining double-digit inflation with close to double-digit unemployment—has resulted in more money being paid out in social security benefits than is currently being paid in by workers and their employers. I emphasize again that Social Security is not the cause of this problem. But it can be part of the solution because it is good for the economy to have this money poured back in through purchases of consumer goods. And we can be sure that Social Security benefit checks are immediately spent on essentials of daily living instead of being deposited in savings accounts.

SOME FINANCING PROBLEMS CAUSED BY DEMOGRAPHIC FACTORS

Demographic factors are responsible for the long-range financing problems. By no stretch of the imagination can we hold the Social Security system responsible for current birth rates. People are living longer. But if the cash benefits keep our aged from starving to death, and Medicare benefits help to prevent untimely death, no one would wish it otherwise.

The full impact of these demographic factors on the Social Security system will not be felt until the next century. I do not mean to suggest by this that I minimize the seriousness of the problem or suggest that its solution can be postponed for future generations to solve. The National Council of Senior Citizens has always held the national interest above the special interests of the aged population. Our members want a better life, not just for themselves but for their children and grandchildren.

I mean instead, that by the next century there may well be offsetting factors that again require the actuaries to revise their present dire predictions. When we get our economy back on its feet, a number of factors could greatly increase the income of the system and reduce its outgo. Full employment permits workers to continue in their jobs to more advanced ages; women, with fewer children, will increasingly enter the labor force; and we have every expectation that productivity will continue to rise over the long run. These factors, coupled with the reduced burden of support for children, all serve to make it more possible for the workers of the future to provide adequately for their older people—so that they in turn can retire with dignity and independence.

I prefaced this plea for viewing the financial problems in proper perspective by saying that they were rather easily solvable in the immediate future but more difficult for the long run. What then are the National Council's recommendations for solutions? Again in the interests of conserving your time, I will summarize them and ask that you include in the record this Supplementary Statement and Dissenting Views,[1] submitted by Rudolph T. Danstedt to the Social Security Advisory Council. Mr. Danstedt is assistant to the president, NCSC, and served on the Social Security Advisory Council as a representative of the public in general and of older people in particular. His views are wholeheartedly endorsed by the National Council of Senior Citizens.

Instead of changing the basic character of the Medicare program in order to improve the financing base for cash benefits, these recommendations face directly the financing problems of the cash benefit program.

We feel that reductions in the trust funds in the next few years are not to be deplored. The trust funds are intended to serve during periods of recession; the fact that Social Security beneficiaries get more money to spend than is currently being deducted from workers' paychecks in Social Security taxes is good for a depressed economy.

To meet this deficit, we recommend that the maximum wage base used for contributions and the calculation of benefits be raised, possibly to $24,000 in 1977 and more thereafter as wages increase. I point out here that such a change would improve the wage-replacement ratio for high earners and would not increase the amount of Social Security tax paid by the average worker. Further, we propose that the tax relate to the employer's full payroll—and would point out that such an increase means that the tax burden placed on employers of combined Social Security and unemployment compensation would be significantly less than contemplated when the Social Security Act was passed back in 1935.

With these changes, the contributions now scheduled would over finance the Medicare hospital insurance program for many years to come. We therefore recommend that the 1978 scheduled increase of 0.2 percent of payroll on employees and employers be allocated to the cash benefit program rather than to the hospital program.

These changes would solve the short-run financing problem of the Social Security system. For the long run, we propose that the Congress restore to the Social Security Act the provision for general revenue financing that was included from 1944 through 1950, as follows:

"There is also authorized to be appropriated to the Trust Fund such additional sums as may be required to finance the benefits and payments provided for in this title."

I need not detail at this time the reasons why the National Council of Senior Citizens has long favored tripartite financing of Social Security benefits. Our recommendation. expressed to this committee on numerous past occasions, takes on even greater importance now that the Social Security system faces future financing problems.

In this study of "Future Directions in Social Security," the committee appropriately addresses itself to issues in addition to financing. The National Council appreciates the opportunities you have given us in the past to present our views on all aspects of Social Security reform, recommendations formulated at a time of more favorable economic conditions.

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[1] See appendix, item 1, p. 961.

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While not minimizing the seriousness of the need for reforms in financing, I urge that you not lose sight of other necessary improvements. We must not sacrifice hard-fought gains in Social Security, Medicare and Supplemental Security Income because of the sad state of today's economy—a state we trust is only temporary.

Inflation Hurts Elderly Most

First, inflation—a serious burden for all our people—inflicts special anguish on the elderly who live on fixed low incomes and spend virtually all of these incomes on the basic essentials of daily living, essentials that have been escalating at especially rapid rates. Inasmuch as the spending patterns of older people are quite different from those of younger families, we urge that careful consideration be given to the appropriateness of the use of the CPI in automatically adjusting payments under Social Security and SSI. We believe the adjustments should be based on an index more accurately reflecting the spending patterns of the elderly. Furthermore, adjustment only once a year fails to live up to the original promise—at least as interpreted by most beneficiaries—that benefits are "inflation-proof." And I need not say to this committee that President Ford's proposal to hold the increase to 5 percent this year is an outrageous attempt to thwart the already inadequate increase promised by the law. The National Council applauds you, Mr. Chairman, and Senators Kennedy, Williams, and Mondale, for the speed with which you introduced Concurrent Resolution 2 opposing the President's action.

Secondly, rather than further eroding the protection of Medicare as the administration proposes, this program should be strengthened and improved. Ultimately, of course, the cure for the shortcomings of Medicare is the adoption of a National Health Security program such as contemplated in Senator Kennedy's bill S. 3 (and H.R. 21). With out-of-pocket payments the aged pay for medical treatment higher now than before Medicare became law, it is urgent that the financial burden of the elderly be reduced—not increased as the Administration proposes. Pending enactment of a Comprehensive Health Security program we urge the following changes in Medicare:

(1) Eliminate the monthly premium beneficiaries now pay for physicians' services (Part B).

(2) Include coverage of prescrpition drugs.

(3) Reduce the present two year and five month waiting period that the disabled must meet to be eligible for health benefits and start Medicare coverage after 5 months when cash disability benefits begin.

Thirdly, the National Council, which has consistently opposed the elimination of the retirement test under Social Security, now redoubles its opposition on economic grounds. Elimination of the retirement test is essentially a proposal to add a bonus to the earned income of the small proportion of the elderly who are physically able to continue in their jobs and for whom jobs are available. It is unconscionable to add to the system the burden of such a bonus amounting to roughly $4 billion annually to be borne out of payroll taxes at a time when workers' real wages are declining. Some have countered that extra cost should be borne out of general revenues. We firmly believe that general revenue financing should be introduced—but it should be used to support improved benefits for the 90 percent of the elderly who are too old or too ill to work and for whom there is not the remotest possibility of employment in this depressed labor market.

And finally, Mr. Chairman, the National Council takes this opportunity to express strong support for S. 388 introduced by you. The objectives we have long sought would be achieved by its provisions to establish the Social Security Administration as an autonomous agency; to prohibit the accompanying of checks with notices that make reference to elected Federal officials; and to separate the transactions of the Social Security trust funds from the unified budget.

The urgency of this issue is underscored by the President's budget proposal to limit the statutory cost-of-living increases in Social Security benefits to an arbitrary 5 percent.

What the President's plan would do, if enacted, it to allow the administration to use the improved financial position of the Social Security trust funds, that would result from the cut back in benefits, to offset part of the deficit in the overall budget, thus making the general budget appear better than it is in fact. This is not only bad social policy—increasing the hardship of older people and the widows, orphans and disabled to reduce budget deficits—but it is dishonest accounting practice. If the head of a business corporation would use the same device in reporting corporation assets to his stockholders, he would be subject under the new Pension Reform Act, to all the penalties of the law.

The clear evidence of impracticality and political chicanery in the Ford budget cut proposals calls for early action by the U.S. Congress to protect the Social Security trust funds from White House manipulation.

Thank you for the opportunity to again participate in the Committee's important study of "Future Directions in Social Security."

Mr. ORIOL. Commissioner, I know you broke into a busy, full day of meetings, so perhaps we had better go ahead with your testimony, and the Senator will catch up when he comes back.

STATEMENT OF ROBERT M. BALL, SCHOLAR IN RESIDENCE, INSTITUTE OF MEDICINE, NATIONAL ACADEMY OF SCIENCES; AND FORMER COMMISSIONER OF SOCIAL SECURITY ADMINISTRATION

Mr. BALL. I have a fairly lengthy statement, Mr. Oriol, and I thought it might be introduced in the record, but without taking up the time to read it.*

Mr. ORIOL. It will be introduced, without objection.

Mr. BALL. What would you think would be the most useful procedure in the absence of the Senators, do you have a series of questions that you would like to to have me answer?

Mr. ORIOL. We do have questions, but I think there are about three or four major points in your statement that perhaps you would like to paraphrase.

FINANCIAL SOUNDNESS IN PROGRAM URGED

Mr. BALL. First of all, it seems to me that it is of major importance that the Congress act in the relatively near future to restore financial soundness to the social security program. This is the quickest and best way to respond to the public perception that Social Security is in difficulty. There are immediate steps that can be taken, and it seems to me until they are taken, we are going to have a continual rash of comments on the system that are very disturbing to the individuals receiving social security benefits and to the 100 million who are contributing to the system. So I would plead for early action, hopefully in this session, on at least the short-range part of the financing problem in Social Security.

The financing situation needs to be looked at in two parts: one part concerns the problem between now and about the turn of the century, and the second part concerns financing in the next century. I would hope there would be early action on at least the first point.

The system will pay out in fiscal year 1976 more than it takes in—in the President's budget, a little over a $4 billion drop in reserves.

I personally do not think that in itself, this is a proper cause for concern. The reason that we have $45 billion in reserve in the cash program is for a period like this—so that it is not necessary to increase income at a time when it would be inconvenient in terms of economic policy. So I am not asking that anything be done about the fact that there will be more outgo than income in fiscal year 1976, or even fiscal year 1977, but I think the steps should be taken now

*See p. 951.

that will increase the income of the program at the end of the economic turndown, so that people will know that the system is not going to continue to run behind.

What I would like to propose very specifically in that the maximum earning base in the social security program be raised beginning in 1977 to $24.000. When that is done, and you apply the rates planned for the hospital insurance part of Medicare to that base, you find that the hospital insurance program is overfinanced for a considerable period of time—not for the long run, but for many years in the future. Consequently, the scheduled rate increase in 1978 of 0.2 percent on employers, and 0.2 percent on employees, that under present law would go to hospital insurance under Medicare, I would propose go instead to the cash benefit program where the financial problem is. Those two steps—an increase in the maximum earnings base to $4,000, and applying the already scheduled 1978 rate increase to the cash benefit program—would put the system back in good financial shape, depending on which estimate you use, at least to the mid-1980's, and I would think really much longer than that.

Mr. ORIOL. I am interested in your statement that Medicare will be overfinanced, more money coming in than going out. Could not that be used on such improvements for coverage of prescription drugs, or elimination of the premium, as suggested by Mr. Cruikshank?

Mr. BALL. Yes, it could, but then you would have to find some other source of funding for the cash program.

I was operating in my own mind on the theory that the most important short-term action that could be taken for Social Security is the restoration of sound financing. Since there is considerable reluctance to increase contribution rates over those that are scheduled, and also considerable reluctance on the part of many to introduce general revenue financing in the near future, you are circumscribed as to what you can do in the period immediately ahead.

Mr. ORIOL. I just could not help raising that.

Mr. BALL. On the longer range question, I might say that what I have tried to do in the prepared testimony, is to put in one place various facets of the financing problem that have been discussed by many different groups, and many newspaper articles in recent months. It seems to me that we need to take action on the benefit side of Social Security that would reduce the long range imbalance in the program and also in my judgment improve protection.

We do not very often in life get the opportunity to actually improve something, and at the same time save money, and it is not quite that.

BENEFITS SHOULD RISE IN RELATION TO WAGES

What I would propose on the benefit side is similar to what the Advisory Council proposes. Instead of having the automatic provisions operate as they do today, I would have the benefit protection rise in the future, in relation to wages.

If you do that, people contributing to the program are assured of getting a replacement of their wages when they retire that is fixed in advance; they can count on it. I consider that a superior system to the present one under which future replacement rates depend on the movement of wages and prices. This change is made and protection is related directly to up-to-date wages. The long-range actuarial imbalance is reduced by about one-third as compared to the imbalance shown in current estimates. Thus, you have this wonderful combination of really improving the system, and also at the same time having a reduction in the cost as compared with current estimates.

Whether it actually reduces the cost, depends on what would have happened to wages and prices over the next 75 years, which of course no one knows, but at least it would help restore people's concept of what the program is, help bring the estimates into balance. It would be a very good thing to do, and quickly, it seems to me.

It is not going to be an easy technical problem to devise a new approach to benefit computation which ties the benefits directly to include wages. A considerable amount of technical work will be called for. The sooner we get started on it, the better, because it will both improve protection and contribute to restoring full public confidence in the financing of the program.

Mr. ORIOL. This is what other witnesses have referred to as coupling and decoupling.

Mr. BALL. I guess so. I tried to avoid that terminology, because I don't think it illuminates the problem. Perhaps "stabilizing the wage replacement rate" would be better.

Mr. ORIOL. Well, since it is in such wide use, I wanted to identify it.

Mr. BALL. Yes.

Mr. ORIOL. Do you have any suggestions on how to get the technical work done, since it is a matter of some urgency?

Mr. BALL. I would think the most efficient way to work on the problem of a benefit formula tied to include wages would be to get the Social Security Administration staff working on this problem if they are not already. One possibility is for the Congress to call for a report—regardless of whether they are for or against it. Ask the staff what would be the best way to implement the Advisory Council's recommendation for a wage indexing system, and then the Congress could judge whether that is what it wanted to do.

Mr. ORIOL. The Advisory Council even said they do not have the formula, and that work has to be done on it, and so your recommendation would clear that up.

Mr. BALL. Right. I have no reason to think the Social Security Administration would not gradually undertake the work, but I do not know that they are or what priority they would give it. They may first be trying to decide, whether they think it is a good idea.

I was trying to short circuit that a little by asking them to prepare a report giving their best technical judgment on how to carry out the recommendations regardless of the executive branch's final judgment on whether such a change is desirable.

Mr. ORIOL. Did you want to continue?

CONGRESS INTENDED PROGRAM TO BE SELF-SUPPORTING

Mr. BALL. Perhaps it would be worthwhile going somewhat into the cause of the financing problems we now find the social security system in. After all, it was only 1972 when the last major amendments were made to the program, and it was the intention of the Congress at the time the legislation was passed to have the system soundly financed on a self-supporting basis. The Congress believed that it had provided for such financing. It was the judgment of the trustees given in the 1973 trustees' report that this had been done.

In other words, you had in the 1973 trustees' report, right after the passage of the major legislation of 1972.

Mr. ORIOL. Senator Clark has come in, and he would like to ask some questions.

Senator CLARK [presiding]. I want to ask one question in particular, Mr. Ball.

In January, we introduced some legislation that would increase the earnings base which you speak about in another part of your paper, upon which the Social Security tax is leveled. Specifically, the legislation would increase the base to $18,000 in 1976; to $21,000 in 1977; and $24,000 in 1978.

My question is this: Would this kind of change affect the short-term problems associated with the social security trust fund which we are hearing a great deal about?

Mr. BALL. Yes, Senator Clark, I am very strongly in favor of the general direction of your amendment.

I would suggest that perhaps 1976 is a little early for putting in a higher step, simply because of the economic downturn.

I would prefer to not try to increase the income to the system until, say, the fall of 1977, which is about when you get the effect if you put the higher wage base in in 1977.

If you do not put the first step in in 1976, it ought to be a little higher step in 1977, to get the same financial result, so I would tend to argue in favor of $24,000 in 1977. Then you are not affecting purchasing power at all until the fall of 1977. By then we should be in a strong recovery position. The general idea of increasing the income of the system through the device of a higher earnings base, as you propose, seems to me exactly the right way to go.

Such an increase affects only the 15 percent of wage earners who are not now paying Social Security on their full earnings. Paying on the higher earnings base would result in those higher earnings being credited to their wage accounts so that when they come to draw benefits, those who have paid more will get more. As an illustration—if an individual were 55, say, at the time the $24,000 wage base went in in 1977, when he retired at 65, he would get something more than $100 a month more by reason of having paid on that higher amount.

If he were 60 at the time the higher wage base went in, he would get something in excess of $50 more by reason of having paid on the higher amount. It is desirable both from the benefit side and also from the income side.

Senator CLARK. The other question I want to ask concerns a special consumer price index for the elderly.

Do you have any estimates of how much such an index might add to the average monthly benefit, as opposed to the present Consumer Price Index, which is based on the general inflation rate?

Mr. BALL. No, I am sorry, Senator Clark, I do not.

I think it is a very good question. Perhaps the people at the Department of Labor who work on the CPI, or the Social Security Office of Research and Statistics could give you some information on this.

I do believe, contrary to what I thought 5 years ago, that it is important to make this change.

CPI—Inappropriate Yardstick

When we are in a period of such rapid inflation, the fact that low-income people and elderly retired people have such a higher proportion of their budget going for food makes the general CPI inappropriate as a measure for them.

We used to think that in normal times the general index was close enough, but I am sure a study now would show it substantially off—because of the high proportion of a low-income budget that goes for food as prices rise rapidly.

Social Security, of course, is not just for elderly people. The index would have to apply to the disabled, and to survivors. I think it is very likely that the same index could be used for low-income people, and for the retired elderly, and apply also to the supplemental security income program, which is also now tied to the general index.

I might take this opportunity, Senator, to say that the bill on Social Security that you introduced recently, seems to me generally to encompass most of the major important next steps for the improvement in Social Security. It would be a highly desirable bill to have passed. I am particularly interested in the feature you brought up, but also in your proposal to bring the supplemental security income program—the needs test program—up to at least the poverty level.

It seems to me wrong for the Federal Government to take the responsibility—in a direct program of its own—for the needy aged, and the blind, and disabled, and then establish eligibility standards, and income standards that are below the official poverty index of the Federal Government itself. At the very least, we ought to raise the standard to the poverty level. At least statistically, if that happens, poverty among the elderly and the blind and disabled, would be abolished. The 16 percent or so of the elderly now shown below the poverty level would be brought up to that level.

Senator Clark. Thank you very much.

Senator Church [resuming chair]. I agree that if the SSI program cannot accomplish this minimal objective, then we should not embark on the program, if we are going to keep people living at the standards that fall below our own official definition of poverty, then we might just as well have let the old welfare system intact.

Mr. Ball. I think, Senator, we do now have a very good structure. The Federal Government is taking this responsibility and it seems to me this is a very good thing. What we need to do is to raise the standard.

Senator Church. That is right.

Structure for Progress Exists

Mr. Ball. And now we have contributory social insurance covering practically everyone. With the great advances of the 1972 amendments we have benefit levels for those retiring in the future at a place where generally they should be reasonably satisfactory. With the automatic provisions to keep protection up to date, the Federal Government has set up the structure for solving a large part of the income security problems for elderly people. This is particularly true if you also consider the Pension Reform Act, which will result in improved private pension supplementation for many people. What I see as the future need for Social Security is not major sweeping reforms. We have been through that, and we have set up a good structure. What we need now are a series of smaller changes to make it more equitable, to improve the benefit structure for this group and for that group, to relate benefits to indexed wages, and most important right now, to restore the financing for the program to a sound basis so that the people are reassured about the security of Social Security.

Senator CHURCH. I would agree. I think perhaps Senator Clark may have asked you about the present feature of the Social Security law that makes an automatic adjustment for increases in the cost of living.

How would you change that mechanism to enable it to act more quickly?

Mr. BALL. How would I?

Senator CHURCH. I find that one of the problems we have with the present provision is that the period which elapses between adjustments is so long, that we find pressures developing for the Congress to intervene again, and mandate an increase in Social Security, and make it retroactive, so that the mechanism is not functioning, as we had intended it to function.

One of the principal reasons for it is that we wanted to move, to make these adjustments automatic, so that we would not have to rely any longer on congressional intervention as the device.

Often we have waited too long before the Congress would act; the people did not know whether or when the adjustment could be made so they could plan for their budgets, and yet since that automatic provision has been written into the law, we have not yet let it work.

We have not yet waited for it to make the automatic adjustments, and there must be something wrong, because I understand the kind of inflation we have been suffering has been a great aggravation, has made it much more difficult to wait, but I think the waiting period must also be too long.

WAITING PERIOD SHOULD BE REDUCED

Mr. BALL. Mr. Chairman, as I said earlier, it seems to me the commitment in the social security system to keep the benefits up to date with rising wages and prices was one of the greatest advances that was ever made in social security. Your role, of course, was a key in getting that improvement.

I agree with you that, in a period of rapid inflation, a year is too long to wait to raise benefits. At the time the automatic provision was passed we had been used to 2 percent a year inflation, 3 percent a year, 4 percent at the most. When you think in terms of levels of inflation like that, a year did not seem unreasonable. Now I would suggest that you just switch over to increases every 6 months, on the same basis—that is, if the CPI has risen 3 percent, have a benefit increase but no oftener than every 6 months. Social Security says that they can accomplish a benefit conversion about every 6 months, without major administrative problems.

They probably would have difficulty with a shorter period. We also mentioned earlier that the index itself ought to be tied to the budgets of low-income and elderly people.

Senator CHURCH. Yes, I realize that.

Mr. BALL. Now, a more fundamental change that ought to be made relates to the way the present automatic system works for people who are still contributing. Once you come on the benefit roles, the two changes we mentioned, I think——

Senator CHURCH. But this is the coupling problem?

Mr. BALL. Yes; I think the Advisory Council's recommendation is a good one.

Senator CHURCH. Well, I would hope out of these hearings, we might formulate some legislation that will accomplish some of these obvious reforms that would command such a universal support, that we could get them down and do not have to wait for the months, for the years that are often entailed when more controversial proposals are under consideration.

It is clear to me from these hearings that we have basically a sound social security program. It is under a period right now—it is under considerable stress, owing to the severity of the inflation, and the reserve has been depleted to some degree, but we clearly have time to solve the problems within the system, and these hearings have really furnished the committee with some excellent recommendations with respect to changes that should be made.

As always, your testimony is excellent, you are regarded by members of this committee as being one of the most enlightened and most knowledgeable men in the field, and your long services as Commissioner is very much appreciated too, so I want to thank you.

Mr. BALL. Thank you.

[The prepared statement of Mr. Ball follows:]

PREPARED STATEMENT OF ROBERT M. BALL

INTRODUCTION

Mr. Chairman and members of the committee, in the last several months, there has been considerable public discussion about the financial soundness of the Social Security program. Several official bodies have either recently completed studies on this subject or are currently engaged in such studies.

On March 7, the statutory Advisory Council on Social Security issued its final report. The majority recommended that the hospital insurance part of the Medicare program be supported from general revenues and that the contributions of workers, their employers and the self-employed now used to support that program be used instead for social security cash benefits. A panel of outside consultants have reported to the Senate Finance Committee that in their judgment there is a larger long-range actuarial deficit in the cash benefit program than was previously reported in the 1974 reports of the Boards of Trustees of the Social Security Trust Funds.

The Senate Finance Committee has appointed a subcommittee under the chairmanship of Senator Mondale to study the question of Social Security financing and to make recommendations. The newly established subcommittee on Social Security of the House Ways and Means Committee, chaired by Congressman James Burke of Massachusetts, has set up a task force on Social Security financing. The President has directed the Domestic Council to study this question and to explore alternative proposals. Finally, a new report of the Boards of Trustees of the Social Security Trust Funds—made up of the Secretary of the Treasury;

the Secretary of Health, Education and Welfare; and the Secretary of Labor—is due on April 1. All of this activity has made a discussion of Social Security financing very timely.

The Social Security system is the Nation's basic group insurance and retirement system. Just about every American family has a major stake in the program. One hundred million people will contribute to Social Security this year, and thirty-one million people—one out of seven Americans—draw a Social Security check every month. The system is a combination of retirement protection, life insurance (called survivor's insurance), disability insurance and health insurance for older people and the disabled (Medicare). Over 90 percent of all the people over 65 are either drawing Social Security benefits or will be eligible to do so upon retirement. Ninety-five out of a hundred of the mothers and children in the country are protected by the life insurance provisions. Four out of five people in the age group 21–64 are protected by the disability insurance provisions. It is well known that most older people are eligible for Social Security benefits, but it is sometimes overlooked that nearly 5 million children receive monthly payments, and that over 2½ million disabled beneficiaries and their wives get payments.

The financial transactions of this government-operated, contributory social insurance system are, of course, very large. Considering only the cash benefit program, this year employees, employers and the self-employed will pay over $66 billion into Social Security and an approximately equal amount will be paid out in benefits. The $46 billion in reserves will earn over $2½ billion in interest, and administrative expenses, also paid from the contribution and interest income to the system, will run about $1 billion.

The system has been designed to be self-supporting—that is, the income to the system from contributions and interest earnings on the reserve is intended to meet the full cost of all benefit payments and administrative expenses as they fall due. Payments to Social Security from the general revenues of the Federal Government are relatively minor and limited to a few special situations, such as payment for noncontributory wage credits granted in the past to members of the armed forces.

Practically everyone is dependent upon Social Security for basic income insurance—the provision of benefits to partially make up for earned income that is lost as result of retirement, disability, or death. Most Americans now also look to the Medicare part of Social Security to provide insurance against the cost of medical care in old age or during periods of long continued disability. It is obvious that the continued financial stability of this institution is of great importance to all Americans, either as citizens or as participating members of the insurance system, and in most instances both.

In my prepared statement I intend to confine myself almost entirely to discussing the financial status of the cash benefit part of the Social Security system, and to describe some proposals I have for improving the financing of that program. I will comment on the financing of the Medicare program only incidentally. I will, of course, be happy, however, to respond to questions not only about the financial status of Social Security, but also about any other aspect of the program.

The Financial Status of Social Security

When the Social Security amendments providing for automatic cost-of-living increases were signed into law in 1972, the system was thought to be adequately financed. The 1973 reports of the Boards of Trustees, issued shortly after these amendments, showed a long-range imbalance of ½ of 1 percent of covered Social Security payroll, or an imbalance of about 5 percent relative to the cost of the whole program over the 75-year period for which Social Security estimates are made. This relatively minor degree of imbalance was considered acceptable, considering the major uncertainties attached to such long-range estimates.

The 1974 Trustees' report, the most recent one, showed the program to be out of balance for the long run by nearly 3 percent of payroll, or almost 25 percent relative to total costs, and to need at least some additional financing in the very near future.

What has happened?

The Short-Run Problem

For the short-run, the main problem is the unprecedented economic situation—high rates of inflation combined with a general slowdown in economic activity.

The high rate of inflation is resulting in substantial increases in benefit outgo under the automatic cost-of-living provisions at the same time that the income of the system is substantially below expected levels because of the high rate of unemployment. As a result, according to the President's budget, Social Security outgo will exceed contribution income by over $4 million in fiscal year 1976 and by over $7 billion in fiscal year 1977. Although these estimates are undoubtedly too high—prices are beginning to increase less rapidly and more stimulative Government action will produce more rapid recovery than projected—there nevertheless will be deficits.

The fact that Social Security benefit payments will exceed contribution income for a short time would not, in itself, be a proper cause for concern. This is why Social Security has the reserves it does. They should be drawn on in a period of recession like the present. For Social Security beneficiaries to get more money to spend than is being deducted from workers' earnings and paid by employers as Social Security contributions is, today, good for the economy. The annual deficit cannot, however, be allowed to continue, and it would unless additional financing is provided.

One way to solve the short-term problem—a way which would also help the long-run situation—is to increase the maximum amount counted for the computation of benefits and for contributions. Contribution *rates* are already quite high (5.85 percent of earnings) and to increase these rates, which apply to all covered workers, above the level already scheduled would certainly meet considerable resistance unless accompanied by major additional benefit protection. Increasing the maximum benefit and contribution base, on the other hand, would make the financing of the system more progressive and at the same time would increase protection for those who pay more.

Under the automatic provisions of present law, the maximum base rises as average earnings covered by Social Security increase. Thus under present law, the present maximum amount covered is $14,100 this year and will be over $16,000 in 1977. I would propose that the maximum base be raised legislatively to $24,000 in 1977, or perhaps it could be increased more gradually starting with a lower figure in 1977 but rising somewhat more later on. The AFL–CIO favors reaching $28,000 in steps. In any event, the increase above what would result from the automatic provisions of present law should not start until 1977 for reasons of economic policy. Starting the increase in 1977 would mean that the change would have no effect until the fall—a time when we should be well on our way to economic recovery—because it is not until fall that any significant number of workers would have earnings exceeding the base that would in any event be in effect for 1977 under the automatic provisions.

With this higher benefit and contribution base, the contribution schedule in present law would substantially over-finance the Medicare hospital insurance program for many years into the future. It would be possible, then, without weakening a sound financing plan for Medicare to shift to the cash benefit program the small increase in the Medicare contribution rate which is now scheduled to occur in 1978. This scheduled increase is 0.2 percent of payroll for employees, and a like amount for employers.

These changes in financing will have two effects: (1) The cash benefit trust funds will start to build up again and, under the most likely assumptions, the build-up will continue far into the 1980's or later. After these changes there would be no short-term financial problem for either the Social Security cash benefit program or the Medicare hospital insurance program. (2) The increase in the contribution and benefit base will increase the protection as well as the payments for the 15 percent of wage earners who are not now paying Social Security contributions on their full earnings. For example, a person earning at the maximum amount covered by Social Security and now age 55 would get, when he or she retired at 65, a benefit of over $100 a month above what he or she would get under present law. An individual earning the maximum amount and now 60 would get about $50 a month more than under present law when he or she retires at 65.

This short-run problem in Social Security financing is easily manageable in this way, while retaining the self-financing principles that have been traditional in the American Social Security system. This approach avoids the need for higher contribution rates. It is also greatly to be preferred, in my opinion, to the proposal made by the majority of the Advisory Council to finance all of the Medicare hospital insurance program out of general revenues (5 of the 13-member Council dissented from this recommendation). Making Medicare entirely dependent on general revenues could easily lead to a loss of the concept of a right to benefits and to the introduction of a means test into the program. Instead of a social insurance program, Medicare might in this way be turned into a relief program.

The Problem in the Next Century

But there is also a longer-run problem in Social Security financing, a problem which develops largely in the next century. The 1974 report of the Boards of Trustees indicated that under certain population and wage and price assumptions there would need to be significant additional Social Security financing because of very dramatic changes in the age composition of the population. These changes arise from the assumption that the low fertility rates of recent years will continue. Since 1957 the expected number of births per woman has steadily declined from the rate of 3.77 estimated for that year. By 1965 the rate was 2.93; by 1970, 2.48; and in 1973 and 1974 it was 1.9.

With considerable justification, therefore, the Social Security actuaries assumed in the 1974 Trustees' report that the fertility rate in the United States for the long run will not be 2.5 as they had assumed in the 1973 Trustees' report, but rather that it will rise very slowly from the 1.9 rate for 1974 and stabilize at 2.1, which is approximately the rate that will produce zero population growth. The results of such a changed assumption are startling. Instead of the United States population moving up from 220 million in 1974 to 312 million in the year 2000, and to 515 million by 2050, under the 1974 assumptions there will be 272 million in the year 2000 and 320 million in 2050, with near zero population growth being reached at that time.

But it is the shift in the *age composition* of the population that is so significant for Social Security financing. In 1940 there were 77 million persons in the group of working age—20 to 64—and 9 million people over 65, a ratio of 11.7 aged persons for every 100 persons of working age. Comparable figures in 1974 are 120 million and 22 million, for a ratio of 18.3 aged for every 100 persons of working age. Under the assumption in the 1974 Trustees' report, there are only minor fluctuations in this ratio between now and 2010, but at the time the growth in the age 20-64 population comes to a halt, while the number of people aged 65 and over shoots up from 34 million in 2010 to 51 million in 2030, resulting in a ratio of 30 people past 65 for every 100 persons of working age. (See table, p. 959)

In the recent report to the Senate Finance Committee by the panel of outside consultants, the assumption is made that the fertility rate will continue to decline until it reaches 1.6 in 1980 before rising very slowly and gradually to a 2.1 rate. This assumption results in still fewer people of working age in the next century and a ratio of 35 people past 65 for every 100 in the age group 20-64.

Thus the result of assuming the continuation of the low fertility rates of the recent past is a population distribution beginning about 2010 that will require the active labor force to support a much larger retired population relative to the size of the labor force than is now true. This is so, of course, quite aside from social security. With these population changes, if all the support for the retired aged were to come from private pensions, or a negative income tax, or from private savings, or relief, or the support of working-age children, the fundamental economic fact would still be that it would take a higher proportion of the goods and services produced by active workers in the next century to support older people than it will in this century, assuming a continuation of the same relative living standards between the two age groups.

Fortunately, the increasing demand on goods and services by the aged resulting from these new population projections will be offset by a decline in the number of younger dependents. If we look not just at the elderly but at the combined number of people below 20 and over 65 and consider this combined group to be the number to be supported by active workers, we get a very different picture than when looking at the aged alone. Even allowing a higher per person living cost for older people than for children, it still can be said with considerable confidence that the kind of population shift that would occur under the 1974 Trustees' assumptions does not represent an increase in the overall economic burden on active workers, but rather an increased obligation to support older people, balanced by a lessening of the obligation to support children. (See table, p. 959.)

From the narrow point of view of the closed system of Social Security, however, there may well be a problem. Since about four-fifths of the cost of the system is for the payment of benefits to older people, the lower cost to the system for benefits to children is offsetting to only a very minor degree. Looked at strictly from the standpoint of the Social Security system in the next century, the issue could well become how the "savings" to active workers from the lessened burden of raising children can be translated into a willingness to pay higher contribution rates for retirement protection.

Evaluating the Long-Range Estimates

But how certain is this major short fall in Social Security financing? Will there really be a serious problem of financing Social Security in the next century?

Perhaps the first point to be dealt with in answering this question is to ask whether it is reasonable to expect fertility rates to remain below the rate needed for zero population growth for a long period of time—until 2005 under the assumptions of the 1974 Trustees' report, until 2025 under the assumptions used in the report to the Senate Finance Committee—and then stabilize at the ZPG rate of 2.1. If we look not at the period just since 1957, but, say, over the last 75 years, there have been many ups and downs in the fertilitiy rate in the United States. It was high at the turn of the century, dropped sharply during the depression of the 1930's, began to rise during World War II, and remained on the rise until 1957. If the fertility rate were to rise again to the 2.5 level—about where it was from 1967 through 1970—there would, of course, be no Social Security financing problem of the type now anticipated.

Population experts have, on the record, not been particularly successful at predicting fertility rates, and in that sense everyone can take his choice on the basis of experience. Yet it would seem imprudent to count on there being a major reversal on the long extended decline in the fertility rate since 1957, and in this way dismiss any long-range Social Security financing problem. The widespread knowledge about, and availability of, inexpensive (for the United States) methods of contraception, the tendency to prefer a higher level of living made possible by a smaller family, and the widely recognized major social reasons for ZPG persuade me that it is reasonable to base projections of Social Security costs on a fertility rate ultimately producing ZPG. I believe we should assume that there will be a larger number of those who will take out of the Social Security funds in the next century relative to those who will pay in, as compared with what has previously been assumed to be the case.

But we have been ignoring another fundamental factor. If productivity were to increase enough, and if some of the increase were used disproportionately to support the aged, the cost effects of the population shift could be offset rather painlessly. It may well be that our recent experience of very low or even zero increases in productivity have made us unduly pessimistic about the level of productivity increases for the long run. Perhaps over the next 75 years we will achieve an average increase of 2½ percent or 3 percent a year instead of the 2 percent assumed in the various recent cost estimates. When we can begin to place major reliance on new power sources (hopefully in the next century not only on the conventional water-cooled nuclear fission reactor of today, but on the much more efficient liquid metal reactor, the power breeder, and safer and even more efficient thermonuclear fusion plus solar and geophysical power sources) perhaps productivity increases will be at significantly higher rates than for the last 20 years when we experienced slightly less than 2 percent average increases. For the period from 2000 to 2050, say, there need be no lack of industrial power, and the application of the scientific method to production and the efficient use and reuse of raw materials has a long way to go.

Thus it could be that the anticipated problem for Social Security financing caused by the expected population shift may not occur, either because the fertility rate rises to the 1970 level or because productivity increases are greater than has been assumed. As indicated, however, it seems prudent to assume that the demographic shifts will occur. And, at the same time, it would not seem prudent to count on optimistic productivity projections to fully offset these demographic shifts. On the contrary, the prudent course would seem to be to take the steps now that would hold down Social Security costs in the next century. After all, although unlikely, it is possible that fertility rates would stay below those needed for ZPG and that the increase in productivity might be even less than the 2 percent increases now being assumed.

There are at least two things that can be done to help hold down social security costs in the next century and that would not undermine commitments already made. The first has to do with the trend toward early retirement; the second, with modification of certain features of the automatic provisions of the present benefit formula.

Early Retirement Trend Causing Cost Problems

The most significant social trend causing higher than necessary social security costs in the next century is the trend toward earlier retirement. In the 1974 Trustees' report the actuaries assumed a continuation of this trend—an assumption that resulted in an estimated additional cost to the system of 0.14 percent of payroll. If we could reverse this trend and have *greater* labor force participation among older people in the next century than we have today, there could be a significant saving for Social Security over what is currently estimated.

There may well be a question whether a policy of earlier and earlier retirement makes sense—either for the individual or for society—when one considers the probablity of more older people living somewhat longer and with a high proportion of those in the younger part of the aged population being in reasonably good health. One quite possible and highly rational response to the change in the age distribution of the population now being predicted would be for society to employ a higher proportion of older people rather than a lower proportion as has been assumed in the cost estimates.

The most fundamental determinant of the cost of pensions is the proportion of the aged group that is productively employed. This is true because private plans almost always require retirement from the particular employer or industry as a condition of drawing benefits; and social security reduces benefits in proportion to earnings for those who earn more than relatively low exempt amounts. (It is to be noted that if social security financing is to gain substantially by any increase in labor force participation by older people, the system must remain a retirement system and not pay benefits to older people whether they continue to work full time or not.)

A major shift in the age distribution of the population in the next century might also result in higher labor force participation rates for women. With fewer children, this would seem to be a likely result. The consequence of such greater labor force participation by women would, of course, be a decline in the ratio of the retired aged to those at work as compared with what would otherwise be the case.

Another way in which Social Security costs in the next century could be reduced below the costs shown in current estimates would be to make a change in the automatic provisions of the Social Security benefit formula.

One of the most important advances ever made in the American Social Security system was the inclusion in the 1972 amendments of automatic provisions that adjust benefits to changing economic conditions. It is no longer necessary to wait for Congress to act in order to have the benefit rates changed to maintain the purchasing power of benefits. No longer will there be long delays—amounting to several years sometimes in the past—in adjusting to increasing prices. These highly desirable program changes resulted from bipartisan support in the Congress and from the recommendations of the President.

Now, however, that we have had actual experience with these provisions during an unprecendented period of rapid inflation during a recession, it is clear they need technical improvement so as better to carry out the objectives of automatic adjustment. First of all, for those already on the benefit rolls, the cost-of-living increases should take place more frequently than once a year. Once a year is often enough if the annual inflation rate is running around 3 percent or 4 percent, but people should not have to wait for these increases for a full year when the inflation rate is 7 percent, 8 percent, 10 percent or more. Whenever the inflation rate rises above, say, one-half of 1 percent a month for some specified period, there should be a benefit increase every 6 months instead of once a year.

Also, we should design a special consumers' price index for older and low-income people and base adjustments in Social Security and the new federal assistance programs for the aged, blind and disabled, Supplemental Security Income, on this new index. During periods of rapid inflation, the fact that such a high proportion of the budgets of older people and low income people goes for food makes the general CPI an inadequate index for benefit revision.

Equally important, we can design a system which over the long run does a better job in keeping protection up to date. The problem with the present automatic provision is that protection may rise under certain circumstances *less* than wages rise, or under other circumstances *more* than wages rise, depending on the movement of wages and prices. The desirable goal would be to have an automatic system which paid benefits in the long-range future which were the same proportion of earnings just before retirement as are paid to people retiring today. In the event that the country wished to provide protection that was a greater proportion of future wages than is supplied today, this should be done by new legislation.

Automatic Provisions Protection of Purchasing Power

The present automatic provisions are particularly vulnernable to an average rate of inflation over the long run. With relatively low average price increases from year to year, say 2 percent, the present system works quite well, but if one assumes high average rates of inflation for the next 75 years—say 4 percent or 5 percent—the benefit results (if they were ever allowed to go into effect, which they would not be) would be ridiculous—a large proportion of those retiring would get Social Security benefits that were greater than the highest wage they had ever earned.

This is how the automatic provisions in present law work. Once people start receiving benefits, the amount payable is kept up to date automatically with increases in the consumer price index. Except for the fact, as I have indicated, that the adjustment needs to be more frequent and should be made in relation to a special price index for the elderly and poor—this part of the provision works well. For people on the benefits rolls, the automatic provisions provide for the protection of the purchasing power of the benefit. It is assumed that from time to time Congress may wish to raise benefits further to adjust them to improvements in the level of living of the community generally, but the automatic provisions merely protect purchasing power. I would not propose to change this in any fundamental way and neither would the recent Advisory Council on Social Security.

For those who have not yet retired—those still contributing to the program—the automatic provisions do much better than keep the protection up to date with prices. Here is how it works: The benefits payable to a retired worker are determined by a table in the Social Security law. For each average monthly wage interval, as defined for Social Security purposes, there is a specified retirement benefit amount. Now under the automatic provisions, when the consumer's price index goes up, the benefit amount for each average wage interval is increased by the same percentage as the rise in the CPI. Thus a $300 average monthly wage today produces a benefit of $214.40. If this coming June there is an 8 percent benefit increase, the table in the law will be rewritten so that in the future an average monthly wage of $300 will produce an 8 percent higher benefit or $231.55. This change provides full compensation for the price increase.

As prices rise, however, so do earnings, and the higher wages are included in the computation of the average monthly wage on which the Social Security benefit is based. Thus when it comes time for the worker who had been earning a $300 wage to retire, his average will no longer be $300, but—depending on the number of wage increases that have accumulated over his working life time—may be $400, $500, or $600. So when it comes time to compute his benefit, it is no longer the benefit shown in the table for the $300 average wage that counts, but the benefit amount related to some much higher average wage. It is a combination then of the increase in the Social Security benefit for a *particular average wage* level—an increase which alone fully reflects the higher cost of living—*plus the increase in the average itself* which results in the updating of the level of protection for those still contributing to the program. This, of course, is considerably more than enough to keep up with prices.

The question becomes "How much more than prices?" If protection is kept up-to-date enough more than prices so as to keep up with wages, the result would seem to be highly satisfactory. This would mean that Social Security protection was keeping up-to-date with increases in the general level of living of the community and that the ratio of Social Security benefits to earnings just before retirement remained stable. This is approximately what does happen if one assumes an average productivity increase of 2 percent a year and a relatively low inflation rate, say 2 percent. On the other hand, as I indicated, if you assume an inflation rate of 4 percent and a productivity increase of 2 percent that while prices rise at 4 percent a year wages are rising at 6 percent, the combined cumulative effect is that towards the middle of the next century benefit protection has increased in excess of 50 percent more than wages! The result, completely contrary to the intent of the automatic provisions, is that a high proportion of retired couples would be eligible for benefits greater than the highest wage they ever received. If one assumes an average rate of inflation of 5 percent with wages rising at 7 percent, the cumulative effect on the relationship of benefit to wages earned is even more ridiculous. with still larger numbers of people receiving benefits greatly in excess of their highest wages.

Six Percent Payroll Imbalance Reported by Panel

Now, of course, such benefit results would never be allowed to occur. The law, of course, would be changed long before such a situation was reached because the results are clearly contrary to program purpose. Yet the high costs of such unreasonably high benefits are included in the long-range estimates and contribute significantly to the present concern about long range Social Security financing. For example, the recent report of the panel of outside consultants to the Senate Finance Committee estimated that the Social Security system had a long range actuarial imbalance of about 6 percent of payroll. One-third of this imbalance arises solely from assuming average wage increases (6 percent) and price increases (4 percent) which result in increases in benefit protection that run way ahead of the increase in wages. Even the more modest assumptions used by the Boards of Trustees in the 1974 report—a 3 percent increase in prices and a 5 percent increase in wages—while producing reasonable benefit results throughout the rest of this century, ultimately produce increases in benefit protection that outpace the increase in wages by 25 percent. The Trustees found an actuarial deficit of 3 percent of payroll of which a third arises entirely from the assumption that benefit protection would be allowed to outpace increases in wages.

(To show how sensitive the automatic provisions are to the selection of assumptions about wages and prices, it should be noted that there is no actuarial deficit at all if the rate of inflation is kept to 2 percent on the average and wage increases average 5 percent!)

The way to cure the appearance of a financing problem that arises from the sensitivity of the formula to assumptions about the rate of inflation is to change the formula so that benefit protection rises directly with increases in wages. This is a good idea anyway because it stabilizes the relationship of benefits to wages and gives contributors the security of knowing what percent of their wages at retirement will be paid in benefits. At the same time, the estimated long range acturial imbalance would be reduced by a third because present estimates show benefit protection in the long run rising more rapidly than wages.

The Advisory Council proposal to base benefits on a system of wave indexing—a system which has been used for sometime in West Germany—seems to me a good way to accomplish the objective. It provides that benefits in the long range future will be the same proportion of earnings just before retirement as are benefits being paid today to people retiring today. This would give contributors the security that they need, and would remove from the discussion of long range Social Security financing the highly unreal "cost" attributable to assumptions that show benefit protection outpacing wage increases.

In summary, I believe we should plan for the continuation of a low fertility rate. The result may not be as serious as the latest Trustees' report shows, but I do believe that after 2010 there will be a larger number of people taking out of Social Security as compared to those paying in than has previously been assumed. To counter this situation, I would urge that we support measures to increase labor force participation rates among older people. I believe also that as the Advisory Council has recommended we should modify the automatic provisions of present law so that contributors have the certainty of benefits rising with future wages. This change has the additional result of showing a substantial reduction in the cost of the program as compared with the most recent estimates. I would also raise the maximum earnings base to $24,000 in 1977 and allocate the 0.2 percent of payroll increase in the contribution rate scheduled for 1978 to the cash benefit program rather than to Medicare.

If in the next century it turns out that these changes are insufficient to fully support the program on a self-financed basis. I would favor the gradual introduction of a government contribution. But there is no hurry about this decision. The need for such a government contribution rests on highly speculative assumptions about what will occur many, many years into the future—assumptions about fertility rates, mortality rates, labor force participation rates by older people and by women, and about the productivity increase we may expect.

In any event, the one out of seven Americans now drawing Social Security benefits, and the 100 million people contributing to the program each year have every right to feel secure that their government will keep its part of the Social Security compact. The financing problems of Social Security both in the short and in the long run are of clearly manageable proportions.

ACTUAL PAST AND PROJECTED FUTURE POPULATION OF THE UNITED STATES BY BROAD AGE GROUPS AND DEPENDENCY RATIO

[Population in thousands]

Year	Under 20	20 to 64	65 and over	Total
Actual: [1]				
1930	47,609	68,438	6,634	122,681
1940	45,306	77,344	9,019	131,669
1950	51,295	86,664	12,257	150,216
1960	73,116	98,687	17,146	188,949
1970	80,637	112,500	20,655	213,792
1973	79,665	117,956	21,916	219,538
Projected: [2]				
1980	75,806	131,913	24,969	232,689
1990	78,433	146,745	29,265	254,443
2000	81,368	158,678	31,034	271,080
2010	80,593	172,642	33,629	286,864
2020	83,493	174,020	42,766	300,279
2030	84,271	173,499	51,383	309,153
2040	85,543	179,322	50,347	315,212
2050	87,324	181,046	51,239	213,609

Year	Under 20	65 and over	Total
Dependency ratio: [3]			
1930	69.6	9.7	79.3
1940	58.5	11.7	70.2
1950	59.2	14.1	73.3
1960	74.1	17.4	91.5
1970	71.7	18.4	90.0
1973	67.5	18.6	86.1
1980	57.5	18.9	76.4
1990	53.4	19.9	73.4
2000	51.3	19.6	70.8
2010	46.7	19.5	66.2
2020	48.0	24.6	72.6
2030	48.6	29.6	78.2
2040	47.7	28.1	75.8
2050	48.2	28.3	76.5

[1] Figures for 1930, 1940, and 1950 are for the United States according to census counts. Figures for 1960 and 1970 are according to census counts and include adjustment for other areas covered by social security as well as for net undercount. Figures for 1973 are census estimates for the United States including net undercount, plus an adjustment for other areas covered by social security.

[2] Based on the population projections prepared by the Office of the Actuary for the 1974 long-range cost estimates.

[3] Dependency ratio is here defined as the total number of persons aged under 20 and/or over 65 per 100 persons aged 20 to 64.

Source: Office of the Actuary, Social Security Administration.

Senator CHURCH. I have another vote. This has been one of those afternoons where I spend most of my time going back and forth to vote.

I think this might be the place to close the hearings this afternoon with thanks to all of the witnesses for their contributions.

[Whereupon, the hearing was adjourned at 4:05 p.m.]

APPENDIX

ITEM 1. SUPPLEMENTARY STATEMENT AND DISSENTING VIEWS TO THE SOCIAL SECURITY ADVISORY COUNCIL REPORT, BY RUDOLPH T. DANSTEDT,[1] DATED FEBRUARY 26, 1975

The Council has made three major findings and recommendations and several minor ones:

1. We strongly support the statement on the philosophy and objectives of social security in which the Council unanimously endorsed the major principles of the contributory, wage-related social security program.

2. We support the Council's recommendation that the method of computing social security benefits be changed to a system guaranteeing that the protection for current workers is kept up to date automatically at least as high as future increases in the level of earnings and that, as in the present system, benefits once payable would be kept up to date with increases in prices. We support this recommendation, however, with the understanding that the "wage replacement ratios" established under the new system will be those pertaining under present law after the updating of benefits in June of 1975.

3. We strongly disagree with the Council's recommendation that the hospitalization insurance part of Medicare be changed from a program of contributory social insurance to one which would be entirely supported by general revenues and that the contributions now earmarked for hospital insurance be shifted to the support of the cash benefit program.

The Council made several other recommendations which, however, compared with the above recommendations are of lesser significance.

While agreeing that the definition of disability for older workers (55–64) should be liberalized, the Council's liberalization of the disability definition does not address itself adequately to the older disabled worker in a job market that discriminates against the older worker. We support a definition under which older workers should be able to qualify for disability benefits if they are occupationally disabled, that is, if they can no longer engage in substantial gainful activity in their last regular occupation. These older occupationally disabled people are in a situation similar to that in which many people find themselves at age 65 when, because of their age, they cannot find job opportunities, and are in effect superannuated.

We disagree with further loosening up of the retirement test. Basically we strongly support the concept of social security as retirement insurance. The present retirement test with its automatic adjustment for an increase as wages rise is a liberal one. It allows individuals to have more in total income—social security benefits plus earnings—the more an individual works and earns. Under present law some people earning as much as $8,000 or $9,000 a year may still be eligible for partial social security benefits.

We see no good reason to incur extra costs for the program to favor further those who are fortunate enough to be able to continue at work, particularly the self-employed and professional people and higher-paid salary and wage workers who frequently do not encounter the same age barriers to gainful activity as other members of the labor force.

Abolishing Medicare as an Earned Right

We want to indicate in detail why we strongly disagree with the Council's recommendation to change the hospitalization part of Medicare from a program of contributory social insurance to one which would be entirely supported by

[1] Mr. Danstedt is assistant to the president of the National Council of Senior Citizens and served on the Advisory Council as a representative of the public.

general revenues, and shift the contribution now earmarked for hospital insurance to the support of the cash benefit program.

The charge to the Council from the Congress specified an examination of "The scope of coverage and adequacy of benefits and other aspects of the program" including title XVIII—Medicare. However, at an early stage of the Council's deliberations, the lateness of the Council's appointment which allowed only 9 months for its study, and the extensive study presumably underway of national health insurance proposals, were presented as reasons for this Council excluding an examination of Medicare.

We agreed reluctantly with this decision because we believed that the Medicare program for older and disabled people should be improved in several important respects. We were and are now concerned with the financial burden on low and middle-income social security recipients of the $6.70 per month premium payment of part B of Medicare which reduces their cash benefits approximately 5 percent. We support for financing purposes elimination of this premium by combining part A (hospital insurance) and part B (supplementary medical insurance)—now financed through premiums and general revenues—of Medicare and the financing of Medicare by one-third contribution from employees, one-third contribution from employers and one-third from the general revenues. Such a recommendation was endorsed by the 1970–1971 Advisory Council.

In spite of the fact that the Council has not studied the Medicare program at its very last meeting the Council voted to fundamentally change the nature of the hospital insurance part of Medicare from a contributory social insurance system to a system which would be one entirely supported by general revenues. In contrast to the careful work of the Council and its staff on the cash benefit part of social security, the reasoning put forth in support of this recommendation shows a lack of serious attention and analysis. The notion that hospital insurance should be paid for entirely by general revenues because the medical benefits provided by the hospital insurance program vary according to the medical needs of the insured individual seems to be based on a misunderstanding of the nature of health insurance. What people are paying for under the Medicare program is "protection against a risk." The fact that some people may draw much more in the way of benefits than others is no more a reason to drop the contributory concept than it would be to drop the contributory concept in the case of the life insurance part of the program where the amount actually paid differs according to the age of the individual at death, the number of dependents, etc.

Moreover, the fact that the amount of protection under hospital insurance (as distinct from the value of benefits actually paid) does not vary by past earnings does not seem to us a significant reason for dropping the contributory principle. In hospital insurance it is the fact that those who earn more pay somewhat more for the same protection and the fact that more of the employer's contribution is used for the protection of the lower paid that introduces progressive principles into the program. In the cash benefit program this result is accomplished by the combination of a flat percentage contribution rate but a weighted benefit formula. In the Medicare program the progressive element is established by having the low-wage earner pay less for comparable protection.

We are greatly concerned that changing Medicare from a contributory social insurance program to one supported entirely by general revenues could well lead to the loss of the concept of earned right and to the possible introduction of an income or means test into the program.

Workers contribute toward hospital insurance with the clear understanding—amounting to a social compact with their government—that when retired or disabled with income down and the incidence of illness up—their hospital insurance costs will be paid as a matter of right.

It needs to be underlined that when Medicare was enacted the representatives of large groups of organized employees—the AFL–CIO and a wide range of international unions—supported the payroll contributions for hospital insurance as a guarantee that hospital insurance shall be an earned right. This continues to be their position.

If Medicare is to be supported entirely by the general taxpayer rather than in significant part by earmarked contributions from those who are to benefit from the protection, the question in the future will inevitably arise as to why general funds should go to pay for the hospitalization and physicians' bills of a selected group in the population—the elderly and disabled—regardless of whether or not a particular elderly or disabled person is entirely able to pay for the services on his own. Thus we fear that the recommendations of the majority could over time transform the Medicare social insurance program into a relief program. There is enough experience with the income-tested Medicaid program to predict what the implications of such a transformation would be for the perpetuation of a two-class system of medicine and in terms of undermining the dignity of the recipient.

If the protection that is now afforded the hospital insurance program by its contributory nature is destroyed, it is likely that it would become much easier to reduce the protection provided. In times of budgetary restriction it would be easier to propose and harder to resist such money-saving proposals. Even today, this Administration is seeking to reduce the deficits in the unified budget by requiring the elderly and disabled to bear more of the cost of Medicare through cost-sharing. Thus we fear that the proposal to finance Medicare out of general revenues so as to use the hospital insurance contributions for the cash benefit program could easily result over time in the elderly being asked, in effect, to make up for the deficits in the cash benefits program through reduction in their health insurance protection.

Although the Council had not considered these matters or any other matters concerning the Medicare program and operating under the pressure to conclude its affairs on its final meeting day, the Council seized on the hospital insurance contributions to finance the deficit in the OASDI program.

Recommendations for Improving the Financing Base for the Cash Benefit Program

Instead of sacrificing the Medicare program in order to improve the financing base for the cash benefit, we propose that the financing problems of the cash benefit program be faced directly.

That the outgo of the cash benefit programs should exceed income in the immediate future is not a cause for concern. The $46 billion in trust fund assets available to the OASDI program exist for just this purpose. The reserves should be drawn on in a period of recession like the present. What this means is that social security beneficiaries get more money to spend than is being deducted from workers' earnings as social security contributions, and today that is good for the economy.

The annual deficit, however, cannot be allowed to continue. To meet this deficit we propose first, that beginning in calendar year 1977 the maximum amount counted for the computation of benefits and for contributions—the wage base—should be raised above the approximately $16,800 that can be expected to be in effect in 1977 under present law. The economic impact of such an increase would not be felt until the fall of 1977 because it is not until then that any significant number of workers would have earnings that exceed the $16,800 figure that would be in effect in any event. The exact amount of the increase in the earnings base should be determined by whether it is to be done in one step or in several steps. One alternative is to increase the amount to $24,000 in 1977 and have it rise automatically from this figure as wages increase. Another possibility is to provide for more gradual increases, that is, a lesser increase for 1977, compensated for by larger increases later. It is of interest to note that the AFL-CIO Executive Council has endorsed moving the wage base up to $28,000 over a period of years.

We propose, further, a tax on the employer's full payroll. A maximum on the benefit and contribution base for individual workers is appropriate since the amount that people pay and the amount that is credited to their record for benefit purposes should be tied together, and it would seem unreasonable under social insurance to compute benefits on the very high salaries earned by the top 2 percent or 3 percent of the wage-earning portion of the population. There is no similar need for a limitation on employer's payroll. The tax on employer's payroll is less now than contemplated in the original Social Security Act. There was then provided an ultimate combined employer tax rate for social security and unemployment compensation totalling 6 percent. Because of the lower proportion of wages now covered under the experience rating of unemployment compensation and the increased tax deductible advantages now available through corporate tax laws, the tax burden on employers is now significantly less than provided by the original law.

With a higher benefit and contribution base, the contribution schedule in present law would substantially over-finance the Medicare hospital insurance program for many years into the future. Consequently, it would be possible to allocate the 1978 scheduled increase of 0.2 percent of payroll to employees, and a like amount on employers, to the cash benefit program rather than to the hospital program. We propose that this be done.

The increase in the wage base we are proposing would return the system, partly, but not all the way, to the original program intent. In 1938, the first year for which there is adequate social security data (the social security system began to collect contributions in 1937), 97 percent of all the workers in the system had their full wages counted toward social security. Today, only 85 percent of the workers covered by the system have all of their earnings counted. To get back to the situation that existed at the time the program first went into effect would require an earnings base substantially in excess of what we propose, probably an earnings base in 1977 in excess of $30,000.

Although the Council adopted an increase in the tax base to $24,000 at its next to last meeting, because of a concern that an increase in the maximum earnings base would invade an area of protection which it was argued should be left to private pensions and individual savings, the Council at its last meeting rescinded this earlier decision. It was our view then and is now that an increase in the earnings base such as we have proposed would still leave substantial room for supplementation by private pension plans and savings. The replacement rate for the worker earning at the $24,000 maximum would be only about 35 percent.

Moreover, such a higher wage base obviates the necessity for an increase in the contribution rate—a position which we strongly favor—and imposes no additional cost on the middle level and lower paid workers, while providing increased protection for those who pay more. It is important to emphasize that the social security program provides a unique protection which offers the workers absolute assurance as to vesting, portability and receipt of benefits when they are due. Raising the maximum earnings base increases benefit protection for workers as well as contributes to the improved financing of the program. For example, if the maximum earnings base were increased to $24,000, a 55-year-old worker earning the maximum amount would get nearly $125 a month more when he retired at 65 than he would if the earnings base were left as in present law. If he were 60 when the increased earnings base went into effect, he would get benefits at 65 of somewhat more than $50 a month above present law.

We share the Council's commitment to income programs supplementary to social security, effective private pensions (as well as individual insurance, savings and other investments) but we hold that we must also keep in mind that less than one-third of all older people now have supplementation from private pensions and even in the long run it is doubtful whether the proportion would exceed 50 percent. Maintaining the financial integrity and protection of the social security system is thus of paramount concern.

These steps that we propose—the increase in the maximum earnings base, a tax on the employer's total payroll and the reallocation of the 1978 contribution increase from hospital insurance to the cash benefit program—would solve what the Council has described as the short-run financing problem of the cash benefit program and carry the cash benefit program on a self-sufficient basis well into the late 1980's.

However, depending on what happens to wage and cost of living rates, a limited contribution may be required from the general revenues in the last decade of this century.

We propose, therefore, to meet this possible contingency by restoring to the Social Security law the provision for general revenue financing that existed from 1944–1950 as follows:

"There is also authorized to be appropriated to the Trust Fund such additional sums as may be required to finance the benefits and payments provided for in this title."

The financing problem in the next century growing out of the likelihood of an increasing proportion of older people as compared to those of working age, will require a gradual introduction of a government contribution.

As we have indicated, we are opposed to solving the financial problems in social security through an increase in the contribution rates beyond those provided in present law. In place of further contribution rate increases beyond those presently scheduled, we believe that the government, as in other countries, should make a contribution to the social security program, not just for the hospital insurance part of Medicare but for the cash benefit program as well. Thus, in the long run, we see a social security system covering both cash benefits and health insurance financed partly by employer contributions, partly by employee contributions, and partly by contributions from the government in recognition of society's stake in a well-functioning social insurance program. While preserving the values inherent in contributory social insurance, such a tri-partite approach will make the financing of the system more progressive.

To recapitulate—we seek to deal responsibly with the OASDI deficit in the proposals we have presented, introducing at a later time the use of the general revenues when this is indicated. The Council's proposal does not only undermine the Medicare program, but adds $7–8 billion now to the government's deficit when this deficit is at an all time high. We believe our proposal is the more fiscally responsible one.

Social Security in the 21st Century

Whether or not there are financing problems for social security in the next century depends, under present law, not only on the future course of fertility rates but on what happens to wage and price increases over the next 75 years. We do not believe it is wise to place substantial reliance on any particular set of assumptions concerning the movement of wages and prices. The assumptions made in the 1974 Report of the Board of Trustees of an average increase of 5 percent in wages and an average increase of 3 percent in consumers' prices produces one level of deficit in the funds after the year 2000. An assumption of a 5 percent increase in wages and a 2 percent increase in the cost of living, on the other hand, would eliminate the deficit even with the fertility assumptions used in the Trustee's Report. Higher assumptions, such as an average increase of 6 percent in wages and 4 percent for the cost of living, as assumed in a recent study by a group of consultants to the Senate Finance Committee, produces still larger deficits than those shown in the 1974 Trustees' Report. Under these assumptions, retirement benefits at award would have increased under present law by the year 2045 by 56 percent more than the increase in earnings. It also produces unreasonably high increases in wage replacement rates. In our judgment, such benefit results would never be allowed to take place and would call for legislative correction. Consequently, we consider the cost results of such assumptions to be highly unrealistic.

Fortunately, the Council's recommendations for basing benefit computation on a system of wage indexing largely removes these uncertainties, making the level of protection more certain and the cost-estimating job more reliable. Pending this change in the benefit system, a change which we support, we see no need to provide, on the basis of a highly speculative set of assumptions concerning the movement of wages and prices, a set of contribution rates in the next century that are any higher than those required to support the program over the next few decades, and have recommended that it would be more reasonable now to provide specifically for contribution income to finance the present program over such a period, and at the same time to restore to the social security law the provision for general revenue financing that was contained in the law from 1944 to 1950.

The predicted change in the age composition of the population does not present any major increase in the burden of supporting non-workers. The very assumptions that lead to an increasing proportion of older people to those of working age leads to a smaller number of children per person of working age. Taking the two non-working parts of the population together—the retired aged and children—there is little change in the ratio of dependents to workers. Thus the resources now required for the upbringing and education of children can under these population assumptions be directed toward providing for older people, at least in part, without any increased burden on current workers. Under such circumstances there is little doubt also but that labor force participation of older people would increase. Cost savings to social security would, of course, result from such increased labor force participation by older people. It is not necessary to change the legal age at which an individual becomes eligible for benefits, as discussed in the Council. With greater opportunity for employment, the cost savings will come about automatically. The proposal to change the legal age of entitlement not only violates the agreement between the social security payee and his government, but penalizes the person who chooses to retire or has to retire because of health or employment circumstances.

It is also possible that costs in the next century measured as a percentage of covered payroll will be smaller than indicated by current estimates because of greater labor force participation by women. With smaller families such a result would seem to be quite likely. Most fundamental, of course, is the long-range trend of productivity increases. Although as indicated earlier, the long-range actuarial deficit of the system is 3 percent of payroll with an assumption of 5 percent increases in wages and 3 percent increases in prices and a 6 percent of payroll deficit on a long-range assumption of a 6 percent increase in wages and a 4 percent increase in prices, an assumption of a 5 percent increase in wages and a 2 percent increase in prices shows the present program to be fully financed! Thus, whether or not there really is a long-range financing problem for social security depends on a highly speculative set of assumptions about fertility rates, labor force participation rates, and long-range movement of wages and prices and the productivity of the labor force.

Conclusion

We share the firm conviction contained in the title of the recently issued White Paper, endorsed by *five* former HEW Secretaries and three former Social Security Commissioners, "Social Security: A Sound and Durable Institution of Great Value," that (1) the short-term financial problems of the system are clearly manageable without radical change, and (2) that any long-range problems in financing can and will be met in a way to fully redeem the promises made to social security contributors."

ITEM 2. LETTER FROM NELSON H. CRUIKSHANK,[2] PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS, DATED MARCH 31, 1975; IN RESPONSE TO A LETTER FROM SENATOR FRANK CHURCH, DATED MARCH 24, 1975

Dear Senator Church: Thank you for your letter of March 24 and once again let me thank you for the opportunity of testifying before the Senate Special Committee on Aging.

In reference to your first question regarding cost-of-living adjustments in Social Security, the National Council of Senior Citizens would like to see a two-step change enacted. We would like to see increases adjusted semiannually. And, as older Americans spend a disproportionate share of their incomes on food, housing, medical care, and transportation, we believe the general Consumer Price Index does not sufficiently measure the degree that inflation affects them. A Consumer Price Index for older Americans which reflects their spending patterns would help correct this inequity.

With both a Consumer Price Index that truly reflects the spending patterns of seniors and a semiannual cost-of-living increase, older people will get the relief Congress intended even during the highest inflationary times.

Regarding your question on out-of-hospital prescription drugs, we support Senator Dick Clark's bill, S. 440, in its coverage of out-of-hospital prescription drugs as it includes 23 classifications of conditions that would come under its jurisdiction. Although the $1 fee for Medicare recipients is the same cost as proposed in the past by Senator Abraham Ribicoff, Senator Clark's bill would include 98 percent of older people's drug purchases which we find to be very comprehensive coverage.

In reference to your question about adequate wage replacement levels, the National Council would favor a wage replacement rate of at least 55 percent.

A recent international comparison of earnings replacement rates in the December, 1974 Social Security Bulletin reports that the replacement rate of old-age pension for an American male worker with average earnings in manufacturing who retired at the end of 1972, was 38 percent. When the wife's benefit is included with her earnings in the year before retirement, the replacement rate for the couple is 57 percent. These figures are unjustifiably low, especially when one considers that some other industrialized countries have levels much higher, such as Austria at 61 percent.

However, two points must be made with respect to the wage replacement rate.

First of all, we tend to overlook the substantial improvements which have occurred during recent years in our replacement rates. For example, the 1968 replacement figures, in marked contrast to 1972, show the old-age pension as 29 percent of earnings in the year before retirement for a single worker and 44 percent for a couple.

[2] See statement, p. 926.

Secondly, a discussion of wage replacement rates is usually fraught with all the problems associated with the concept of "average." In regard to Social Security cash benefits, average wage replacement rates fail to indicate the strongly progressive benefit structure and resultant range of replacement rates.

Although technically speaking, the schedule of benefits according to average monthly wage is not the same as wage replacement rates, the comparison illustrates the variability of wage replacement rates. These two concepts are not directly related because the average monthly wage takes into account almost all the worker's earnings history whereas the wage replacement rate is limited to the amount of old-age pension as a percentage of the earnings only in the year before retirement for a male worker with average earnings in manufacturing.

With this caveat in mind, when we examined the Social Security benefit schedule the cash benefit replaces the average monthly wage from roughly 120 percentage to 45 percent. Specifically, if a worker reached age 65 and retired in 1975 with an average monthly wage of $100, his benefit would be $120.80 or a 120.8 percent replacement. On the other hand, according to the present schedule, if a worker turned 65 and retired at some later date with an average monthly wage of $1,000, his benefit would be $449, or a replacement of 44.9 percent.

In the past we have been concerned that the Social Security benefit structure be strongly progressive in part to meet the objective of social adequacy as well as individual equity.

Although sympathetic to this need, we have believed that the cost of meeting the objectives of social adequacy should be paid partially out of Federal general revenues since it is not appropriate to finance a benefit solely from a payroll tax which is in fact relieving society as a whole from the burden of providing for the very poor.

The new Supplemental Security Income program is a move in the direction of adequate retirement income for the low wage worker. Because of this program we can now be more concerned with making Social Security benefits more wage-related all along the scale.

One of our efforts to achieve a higher replacement level is our advocacy of a "high 5" or "high 10" approach to calculating Social Security cash benefits. By allowing workers to choose their highest 5 or 10 years of pay for benefit computation, the replacement figures would be significantly increased.

I hope that I have been able to answer your questions satisfactorily.

I look forward to reviewing the legislation you mentioned.

Sincerely and respectfully yours,

NELSON H. CRUIKSHANK.
President.

ITEM 3. EXCERPTS FROM LETTERS SENT TO THE NATIONAL COUNCIL OF SENIOR CITIZENS BY ITS MEMBERSHIP

From Philadelphia, Pa.—"I visited my mother every day for a week from January 25 on. . . . In 3 weeks time she deteriorated rapidly, physically, and mentally, from being what seems to me, on a starvation diet and a lack of minimum care.

"She was given canned vegetable soup, a serving of baby food (barley), two-thirds of a juice glass of milk, pudding, and coffee, a stimulant that keeps the undernourished and ill-fed awake at night, a meal devoid of food value. When I arrived at 1 o'clock, which is immediately after their lunch hour, she was famished for the food I brought her."

From West New York, N.J.—"I came under the law of 1972 which increased Social Security to $170 at age 65 for those with small checks because of low earnings who paid into the Social Security system for 30 or more years. I took my pension early so I received a pro rata increase. . . . Does this mean we are never entitled to any future increases? Hasn't inflation hit us harder than those who are receiving the maximum?"

From Cedar Ridge, Calif.—"There is a lady alone in San Francisco drawing $118 per month Social Security and having to pay $100 per month rent and now they want to take away her food stamps. What can anyone do on $18 a month toward buying food, clothes, and all the other items. I think the senior citizens are treated badly, pretty badly. . . . Too many people are going hungry in this country while the Government can only think of foreign aid."

From Palm Bay, Fla.—"We think it is about time our Congress does something about stopping the rising of prices such as we have had here in our mobile home park where the space rent has increased from $40 to $70 per month in 1½ years with no increase in service to the tenants."

From Marshfield, Mass.—"On September 1, 1973, I retired at the mandatory age of 65 from the ——— company . . . after being employed by them for approximately 20 years. I now receive a pension from this company having contributed to to their pension plan during my entire years of employment with the company. The amount of my contributions which were taken out of my salary every 2 weeks and on which I paid both Federal and State taxes, was $3,034.

"Seven months after I retired, the ——— Company advised their employees that they were refunding to them, in cash, all contributions which the employees had contributed to the pension plan since its inception in 1949—plus 3 percent compound interest. . . ."

From Midway, Pa.—"The excessive and inflated rise in the cost of coal over the last 13 months is causing extreme hardship on retired and unemployed families in the Pittsburgh area." (Listed below are his expenditures for coal:)

Date:	*Total spent on coal*
Nov. 2, 1973	$51.61
Feb. 11, 1974	59.69
Sept. 25, 1974	117.12
Dec. 31, 1974	130.00

From Weston, W. Va.—"Just living will be much tougher in 2 more months; and don't let anybody tell you it will be much better in 1976. Social Security giveth (nuts) and inflation taketh away!"

From Lawrence, Mass.—"We have no SSI, no pension, no stamps, just two checks a month, so I keep my check of $179.10 for medication . . . I hope they would pass that Kennedy-Mills insurance package so that we can start living again. . . ."

ITEM 4. NEWSPAPER ARTICLE FROM THE NEW YORK TIMES, DATED MARCH 16, 1975

In 1974, the Birth Rate Moved Up

(By Harry Schwartz[1])

The first Government statistics on population trends in 1974 provide bad news for advocates of zero population growth. The curve of births suddenly moved upward last year, while the curve of deaths moved equally suddenly downward. This year saw the lowest death rate in the nation's history.

Only the new data on 1974 marriages and divorces provided any significant comfort for those who oppose population growth. Marriages declined significantly last year as compared with early years of the 1970's, while the number of divorces climbed sharply and approached the million mark.

Births: Through last August, it looked as though 1974 was going to continue the 1970's trend of declining numbers of births each year. Then suddenly last September the number of live births exceeded those of a year earlier. The same thing happened in October, November and December. The result was that in 1974 the annual number of births was higher than that of a year earlier, reversing a trend that began five years ago.

The absolute rise was relatively tiny—25,000 more babies born last year than in 1973 when the total was 3,141,000. But it was a change of trend in a period when the rising popularity of contraceptives and the universal legalization of abortions in this country had led many to expect that the steady fall in births since 1970 would continue, and perhaps decrease further.

But in reporting the trend change, the National Center for Health Statistics of the Department of Health, Education and Welfare chose to emphasize a factor which will tend to increase births at least for the rest of the decade. The essence of the explanation by the department is not that the average woman is having more children, but that the number of women in the prime child-bearing ages is rising rapidly because of birth trends in the 1930's, 1940's and 1950's.

[1] Harry Schwartz is a member of the editorial board of the *New York Times*.

The number of women in the child bearing ages (officially taken as 15–44 years) rose 2 per cent between 1973 and 1974, and will rise 12 per cent more by 1980. This jump is particularly rapid among women aged 20–29 whose fertility rates are highest. Their number rose 3 per cent last year and will grow an additional 14 per cent by 1980.

THE TROUBLE WITH PROPHECIES

Back in the 1960's, many demographers were predicting a baby boom for the 1970's, precisely because they knew there would be so many potential mothers available in prime child-bearing ages. The demographers have had several years now in which their prophecies have looked bad as births and birth rates have fallen. Now the new data suggest the old prophecies need to be taken out of storage and looked at again. A miniature baby boom could well be on the way, merely delayed a few years by changes in the practice and law of contraception and abortion.

Deaths: Equally striking was last year's decline in deaths. About 1,933,000 Americans died in 1974, 44,000 fewer than in 1973 and 31,000 fewer than in 1972. But because United States population recently has been increasing about 1,500,000 persons a year, the decline in death rates (deaths per thousand population) was startling to demographers. In 1974 there were only 9.1 deaths per thousand Americans, the lowest death rate in the nation's entire history. Moreover, there was almost a 7 per cent decline in infant mortality, another new record low rate: 16.5 deaths of babies 1 year old or less per each thousand babies born. Less than a decade ago, in 1965, the infant mortality rate was 50 per cent higher than it was in 1974.

Marriages: There were 2,223,000 marriages last year, 54,000 fewer than in 1973. Taking population into account, last year's marriage rate—10.5 per thousand population—was somewhat lower than comparable figures for the 1970's, but still significantly higher than it was in much of the 1960's. The one clear trend evident in the historical data is that toward an older age at marriage; by 1973 half the new brides were 21 or older and half the new grooms were at least a month or two beyond their 23d birthdays. A 1974 extension, even slight, of that trend toward marriage at a later age would easily explain the drop in marriages last year, both absolutely and as a rate taking population into account.

Divorces: Divorces continued their upward trend in 1974, reaching a total of 970,000 as against 913,000 in 1973. Divorces have roughly doubled since 1965 when the number was 479,000. Clearly many factors are at work to produce this great jump in broken marriages. Changing social mores and changing expectations among husbands and wives are certainly involved in all this, but so, too, is the fact that the United States continues to have an ever more educated, more sophisticated and more affluent population; that is, an ever increasing number of men and women who no longer are willing to accept unhappy marriages, but know about divorce and are able to resort to it when they wish.

ITEM 5. LETTER FROM ROBERT M. BALL,[1] NATIONAL ACADEMY OF SCIENCES, DATED APRIL 21, 1975; IN RESPONSE TO A LETTER FROM SENATOR FRANK CHURCH, DATED MARCH 26, 1975

DEAR MR. CHAIRMAN: I am sorry it has taken me so long to reply to your letter of March 26 forwarding the several questions from Senator Cranston. I greatly appreciate your comments about my testimony on "Future Directions in Social Security."

Below I have indicated my responses to Senator Cranston's questions in the order in which he asked them:

1. I am strongly opposed to the Advisory Council's recommendation to support the hospital insurance program under Medicare entirely from general revenues. I believe that the greatest danger from such a shift would be the possibility that over time an income or means test might be introduced, and thus change the Medicare program from a social insurance program into a welfare program. I believe this to be a danger because if there were no earmarked contributions or premium payments made by the potential beneficiary, there would be a tendency

[1] See statement, p. 945.

to reason that the program should not take care of those who "could take care of themselves." In my view, the fact that workers pay toward their protection under social security and Medicare assures them of getting the benefits without having to submit to a test of need.

It is also true, in my opinion, as you suggest, that if the program were entirely supported out of general revenues it would make it easier to reduce program coverage because of competing demands. As long as people are paying an insurance premium toward specific benefits, I do not believe the Congress would repudiate the obligation of the Federal Government as the insurer to provide the protection toward which people had paid. On the other hand, benefits out of general revenues are always subject to the possibility of reduction because of budgetary pressures. Even under the existing contributory system, the Ford and Nixon Administrations have recommended reductions in the protection under Medicare, but the Congress has not been willing to follow such recommendations. If the system were not contributory, such recommendations would have more chance of acceptance.

2. Clearly, the social security system needs more income. As you state your question, it would be necessary to turn to general revenues because you have ruled out other sources of income. Personally, I would favor raising the maximum amount counted for benefits and contributions as the near-term step to take in strengthening social security financing. I would favor raising the maximum earning base to $24,000 in 1977. With the maximum at this figure, the hospital insurance program under Medicare would be significantly over financed for many years into the future. It would, therefore, be possible, without weakening the financing of Medicare, to allocate to the cash benefit program the contribution rate increase of 0.2 percent now scheduled for 1978 for Medicare. These two steps would meet social security financing needs until the late 1980's or, perhaps, into the 1990's.

Another step that should be taken to reduce costs below what they are now estimated to be would be to change the automatic provisions in the social security law so that benefit protection increases as wages go up but would not, under any circumstances, exceed the increases in wages. If this were done, the workers would provide more certain protection for the covered worker, but the cost of the system as a percentage of payroll would be less than is shown in the current estimates. This is true because the current estimates are based on assumptions that produce increases in benefit protection over the long run which is automatically increased more than the increase in wages.

If these changes are insufficient to fully meet the costs of the program in the very long run—and costs in the next century are, of course, highly speculative and depend on such hard-to-predict factors as fertility rates, mortality rate, labor force participation rates of older people and women, and productivity gains—I would favor the gradual introduction of general revenues. In the meantime, I would like to reserve a general revenue contribution to social security for the purpose of paying part of the cost of a national health insurance system. I would favor eventually a comprehensive social security system, including national health insurance, that was supported partly from deductions from workers' earnings, partly from contributions by employers, and partly from general revenues.

3. I would favor some general revenue financing for the Medicare program but for only part of the cost. As I indicated earlier, I think it is very important to retain the contributory idea. However, I support the recommendation of the 1971 Advisory Council to combine the hospital insurance part of Medicare with the supplementary medical part covering primarily physicians' services. With this combination, the Council recommended that the new program be supported one-third from employees' contributions, one-third from employers' contributions, and one-third from general revenues. It is to be borne in mind that more than half the cost of the Supplementary Medical Insurance program is now paid for from general revenues. As indicated above, I would also use general revenues to provide part of the support of a new national health insurance program.

4. The social security cash benefit program is now very close to a pay-as-you-go system. The reserves in the old-age and survivors part of the program are sufficient to pay benefits for about 60 percent of a year, and the reserves in the disability program are sufficient to pay benefits for just short of a year. I think it is desirable to maintain some contingency reserve. The reason for such reserves is well illustrated by the situation we are in today. Outgo for the cash social security program will exceed income in fiscal 1976 and again in 1977. This in itself does not seem to me to be a legitimate cause for concern because of the

reserves. Because of the reserves it is not necessary to increase income to the program at a time when it would be inconsistent with broad economic policy to do so. (It is important to increase the income to the system in the near future, say in 1977, but because of the reserves it is not necessary to do so until we are well on the road to economic recovery.)

As you know, the present assets would not go very far in carrying the system. There would still be a problem in the early 1980's, probably 1981, even if all the assets were to be used.

On the other hand, I do not believe that it is necessary to have as large reserves as was previously thought desirable. The objective should be to have reserves that are sufficient to carry the program through a serious recession but that is all. For that purpose, assets equal to one-half of the next year's outgo would be sufficient, rather than the rule-of-thumb which has been used until recently—assets equal to the outgo of a full year.

5. I accept the idea that the employee's contribution to social security rests in final incidence on him and that generally a large part, at least, of the employer's contribution is shifted, over time, to the worker either as lower wages or as increased prices for goods and services. This is one reason that I would prefer not to have the social security rates increased beyond the rates already scheduled in present law. The rates are already quite high for the lower-paid worker. It seems to me much better to increase the maximum earnings base, which, incidentally, would also increase protection for those who paid more and then, if necessary, and when necessary, gradually introduce general revenue financing.

6. The long-range cost of social security would be more predictable if the automatic provisions were changed so that benefit protection increased directly with increases in wages. The present automatic provisions are very sensitive to the rate of inflation, but if the recent Advisory Council's recommendations for changing the benefit computation to an indexed-wage system were to be adopted, the cost of the program would be easier to forecast. I favor this change for a variety of reasons, as I have indicated. It is still true, of course, that costs in the next century would be uncertain, but the predictability would be greatly improved because the level of benefit protection would no longer depend on the interrelationship between future wage and inflation patterns as it does under the present automatic provisions.

I agree that it is of the greatest importance to make sure that the social security system is adequately financed over the middle range—say, for a period of 25 years or so. That is why I stress the middle-range solution of a higher wage base and a transfer of the 1978 rate to the cash benefit program. However, I do believe it is also desirable for us to take note of probable costs over a longer-range period. Otherwise, we might over-commit the system by providing now for a level of benefits that would be hard to sustain in the very long run. I think it is of great importance that the Government, as insurer, be fully able to carry out its commitments, and in order to do this I think we need to know what the most likely possibilities are in the next century.

As far as the Senate Finance Committee's report of the panel of outside experts is concerned, however, I would point out that one-third of the actuarial imbalance they find over the next 75-year period is due entirely to wage and price assumptions which lead to benefit increases that are completely unreasonable and would never be allowed to go into effect. In other words, a major reason for the high cost shown by this panel's report is that a high proportion of workers in the program would get benefits on retirement that were higher than any wages they had ever earned. This is theoretically possible under the present system, but obviously would never be allowed to take place. It is contrary to the intent of the automatic provisions, and long before such a result developed the automatic provisions would be changed. Under other wage and price assumptions not used by the panel, these results do not obtain. In any event, a shift to the Advisory Council's way of figuring benefits, which I favor, would greatly reduce the actuarial imbalance shown by the panel's report.

Cordially,

ROBERT M. BALL,
Senior Scholar.

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