91st Congress }
2d Session }
COMMITTEE PRINT

THE STAKE OF TODAY'S WORKERS IN RETIREMENT SECURITY

A WORKING PAPER IN CONJUNCTION WITH THE OVERALL STUDY OF "ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE"

PREPARED FOR THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

APRIL 1970

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE
42-821 O WASHINGTON : 1970

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LETTER OF TRANSMITTAL

Hon. Harrison A. Williams, Jr.,
Chairman, Special Committee on Aging,
U.S. Senate, Washington, D.C.

Dear Senator Williams: In response to your request, I am submitting the enclosed working paper on the stake of today's workers in retirement security.

As you will note, this paper comments extensively on the study submitted to your committee in March 1969, by the Task Force on the Economics of Aging. All of us interested in the problems of the aging are indebted to this task force for the excellent analyses they have made, especially of the economic aspects of those problems.

While I take full responsibility for the contents and conclusions of the enclosed working paper, I wish to acknowledge the valuable assistance I received in its preparation from Miss Dorothy McCamman, consultant to your committee.

In transmitting this paper I regret to have to take note of the fact that an element of controversy has been introduced into this area of concern which should be studied dispassionately and impersonally. At the end of February the chief actuary of the Social Security Administration, in the course of his appearance before the Senate Finance Committee, introduced certain charges against those who feel that the social security program should be improved and updated in order more fully to meet the needs of workers who have retired. He charged those who hold this point of view, including Members of the Congress, with being "expansionists," an epithet which he clearly meant as derogatory. Since that time he has carried his vendetta into the public prints, including one publication in particular that has an unenviable reputation for consistently opposing the social security program (which they have a right to do) and for distorting and twisting the facts about it—which they have no right to do.

It will be clear to all who read my working paper that I am obviously among the "expansionists." I take this position without apology. I take it because the gap between the needs of retired people and their economic resources, including their social security benefits, is expanding. I take it because the economy of this Nation is expanding. I take it because the standard of living is expanding. I take it because I wholeheartedly believe that in an expanding economy, faced with an expanding need, social security should not be the only program area that is not expanding, left wedded to an outdated concept of a minimum "floor of protection."

My paper makes no pretensions of being an exhaustive analysis of the economic problems of the elderly, nor of the adequacy of our social security system. It is submitted in the hope that it will be the basis for constructive discussion of these very important problems.

Respectfully yours,

Nelson H. Cruikshank,
President, National Council of Senior Citizens.

PREFACE

The U.S. Senate Special Committee on Aging is nearing final hearings in its inquiry into the "Economics of Aging: Toward a Full Share in Abundance."

More than 12 months ago, the first testimony [1] was taken. More than 15 months ago, a distinguished task force prepared a working paper [2] which admirably summed up themes discussed and debated at later hearings. And, with the issuance of other working papers [3] and the taking of other testimony,[4] the committee and its subcommittees have looked deeply into health, consumer, homeownership, pension, and other vital aspects of the economics of aging.

The focus has been primarily upon *personal* economics, although attention has been paid to national legislation and economic policies. We have been concerned about the effect that limited income, inflation, health costs, and other problems have upon individual persons who live in anxiety because each month's bills become more difficult to pay.

What has emerged is a compelling call for immediate and long-range action.

What has *not* emerged, as clearly as it should, is that the Committee on Aging is also concerned about the elderly of the future—today's workers.

But the committee would fail in the mandate given to it by the U.S. Senate if it did not declare and demonstrate—as emphatically as it can—that the retirement income crisis of today will inevitably deepen in future years unless major public policy changes are made within the very near future.

We are looking down the road. And we see danger.

To alert the workers of today—to whom retirement may seem to be distant and therefore not threatening—the committee asked Mr. Nelson Cruikshank to prepare a report addressed to those now middle aged and younger. We asked him to draw from his distinguished career as director of the Social Security Department of the American Federation of Labor–Congress of Industrial Organizations. We asked him to give us the benefit of his present perspective as president of the National Council of Senior Citizens.

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[1] Part 1. Survey hearing, Washington, D.C., Apr. 29-30, 1969.
[2] Economics of Aging: Toward a Full Share in Abundance, March 1969.
[3] Health Aspects of the Economics of Aging, July 1969.
Social Security for the Aged: International Perspectives, August 1969.
Homeownership Aspects of the Economics of Aging (a fact sheet), July 1969.
Employment Aspects of the Economics of Aging, December 1969.
Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions, January 1970.
[4] Part 2. Consumer Aspects, Ann Arbor, Mich., June 8, 1969
Part 3. Health Aspects, Washington, D.C., July 17-18, 1969
Part 4. Homeownership Aspects, Washington, D.C., July 31-Aug. 1, 1969
Part 5. Central Urban Area, Paramus, N.J., July 14, 1969
Part 6. Retirement Community, Cape May, N.J., July 15, 1969
Part 7. International Perspectives, Washington, D.C., July 25, 1969
Part 8. National Organizations, Washington, D.C., Oct. 29, 1969
Part 9. Employment Aspects, Washington, D.C., Dec. 18-19, 1969
Part 10. Pension Aspects, Washington, D.C., Feb. 17-18, 1970.

He has responded with a study which should be read by today's breadwinners as carefully as they would read an insurance policy.

The message is clear: There is no "we" and "they" among the young and old of this Nation. The young become the old and will share the same problems, just a little later. And successes, too, ultimately become shared.

HARRISON A. WILLIAMS, Jr.,
Chairman, Senate Special Committee on Aging.

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THE STAKE OF TODAY'S WORKERS IN RETIREMENT SECURITY

(By Nelson H. Cruikshank, President, National Council of Senior Citizens, Inc.)

INTRODUCTION

"Every American—whether poor or rich, black or white, uneducated or college-trained—faces a common aging problem: How can he provide and plan for a retirement period of indeterminate length and uncertain needs? How can he allocate earnings during his working lifetime so that he not only meets current obligations for raising children and contributing to the support of aged parents but has something left over for his own old age?"

With these words, the task force that reported to the Special Committee on Aging in March 1969 introduced its outstanding study of the "Economics of Aging: Toward a Full Share in Abundance." The findings of the task force made clear that the economic problems of old age are not transitional problems—that given present trends, inadequate income will still be a problem plaguing future generations of aged people. Clearly, today's workers have a tremendous stake in retirement security *now*.

The present working paper sets forth the real meaning of this stake and the reasons why workers of all ages should be actively supporting a national effort to solve the economic problems of aging, assuring their own full share in future abundance as well as a full share for those already old.

ECONOMIC SECURITY AND THE MODERN FAMILY

The working population's ability and willingness to support the nonworking population assures that those now working will, in their nonworking years, continue to share in our Nation's productivity.

Young and middle-aged workers don't really like to think about their own old age. But let's face the facts. When today's worker retires some 10, 20, or even 40 years from now, he will not be retiring with a basement crammed full of the food, goods, and services that he will need for the rest of his life. He, along with everybody else, will continue to get his needed goods and services from the current national production of all goods and services.

And the time has long since gone when the grandparents in each family lived with and were supported by the parents of that family. Support of one generation by another is now provided, not within families, but between one whole generation and another. The generation now in the labor force supports the generation of retirees so that it in turn can be supported in retirement by those then productive. This transfer of incomes between generations is now achieved

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primarily through governmental and institutional arrangements rather than within family units. Payroll deductions and social insurance are simply the mechanism by which an industrial society implements these transfers.

We pride ourselves on being self-reliant and provident. One illustration should suffice to indicate why provision of retirement security simply cannot be achieved solely on a "do-it-yourself" basis. This illustration, based on a model developed by Dr. Juanita M. Kreps and Prof. John O. Blackburn, Duke University, is summarized as follows on pages 36–37 of the working paper "Economics of Aging: Toward a Full Share in Abundance."

> It assumes that income earners save systematically for their own retirement by setting aside that fraction of income necessary to provide a retirement level of consumption equal to the level of that year. The worker's income is rising at a rate of *M* per year. Upon retirement, he takes his savings (plus interest) and buys an annuity providing whatever annual income can be purchased for the remainder of his life.
>
> But since the retiree's savings were accumulated during an earlier period when earnings were lower than those of the present generation of workers, he will begin his retirement consumption at only a fraction of the worker's level. Only if *M* is zero would he start at 100 percent of the worker's level (table 16a).

Table 16a shows that the percentage drops to 60 percent if the rate of income growth is 2 percent and to 48 percent, if 3 percent.

> Furthermore, he will have a fixcd payment per year during retirement, while persons in the labor force continue to enjoy rising incomes at rate *M* per year (table 16b).

Table 16b shows that a 2-percent rate of income growth would further reduce the proportion to 45 percent after 10 years and to one-third after 20 years of retirement. At a 3-percent rate of growth, the proportion would be 36 percent after 10 years and 27 percent after 20 years.

> Thus, under these assumptions, an annual rate of saving aimed at providing retirement consumption equal to 100 percent of current consumption during worklife would, in fact, provide only a fraction—perhaps one-half to two-thirds—of consumption during worklife, and this proportion only at the beginning of the retirement period. During the course of the retirement years, the retiree's level of consumption falls further still, perhaps to as little as one-fourth of that enjoyed by persons still at work.

Even if our economy were not growing, the vast bulk of the working population does not have the margin between income and outgo that would permit the significant savings needed to provide for their own old age, or to even contribute significantly to raising the income from other sources.

Again, the task force working paper provides ample evidence of this fact. Using data on annual income and expenditures for 1961–62 (the most recent available but probably not too unlike today's pattern with respect to the excess or deficit of income in relation to expenditures), the findings are summarized on page 35 as follows:

> Annual incomes exceed expenditures of the self-employed and professional workers' families for most of the age cohorts, leaving sources of savings at practically all stages of worklife. Semiskilled workers, whose expenditures are below income for families in the middle and later years, also have a small margin for saving. For clerical and skilled workers, expenditures are barely balanced by income over the worklife, with the years of slight deficits roughly matched by years of small savings. In the case of unskilled workers, no balance of income with expenditure is achieved except by the 55–64 age group.

Based on these data, the task force concluded: "*If past performance is a guide, private savings cannot be expected to contribute significantly to raising the level of income in old age.* The earnings levels leave only a small excess of income over consumption expenditures for most families during worklife."

Is there not a fundamental contradiction in our national philosophy when we caution "save and be thrifty" at the same time that billions are devoted to encouraging people to spend? Furthermore, suppose each individual family did try to save enough to provide its own security in the event of any of the risks that might occur—the possibility of the death or disability of the breadwinner or long-term unemployment while the family is still young—as well as for an old age of unpredictable length and uncertain needs. Quite aside from the question of the possibility of accumulating such large and uncertain amounts on an individual basis, what would be the effect on our economy if every family attempted to save on this scale?

SOCIAL SECURITY AS THE BASE FOR RETIREMENT SECURITY

The social security system covering old-age, survivors, disability, and health insurance (OASDHI) is the basic method chosen by this Nation for transferring income from those in the active labor force to those no longer able to work. It is through taxes paid to this program that today's workers stake their claim to a fair share in the Nation's productivity when they, in turn, are no longer supported by a paycheck. In the last analysis, they are the ones who will determine the level of income to which they themselves will be entitled when they reach old age as well as the level for those now old.

For most retirees today, social security benefits are the major source of income.

As a measure of the important role of the social security benefit in maintaining income, preliminary findings from the 1968 Social Security Survey of the Aged show that a large number of beneficiaries had little cash income besides their benefits. In 1967, about one-third of the nonmarried beneficiaries received less than $150 in money income other than benefits during the entire year. Nearly one-fifth of the couples had less than $300 in addition to their benefits. There had been little improvement in this respect since 1963 when the income of beneficiaries had last been studied. In fact, the 1968 survey found relatively little improvement over the survey a decade earlier.

Yet, even with the long overdue and inadequate 15-percent increase, benefits will average only $116 for the retired aged worker, $196 for an aged couple, and $101 for the aged widow.

Benefits for workers now coming on the rolls average higher than these amounts and they are more likely to have income from other sources—a private pension plan, for example, or income from assets that have not yet been exhausted, or from part-time employment after retirement.

Any complacency about great improvement for the immediate future, however, is quickly shattered by the following findings reported in the task force's working paper:

- **Projections to 1980 indicate that about half the couples and more than three-fourths of the unmarried retirees will receive $3,000 or less in pension income. And these projections use relatively liberal assumptions with respect to increases in private and public benefit levels.**
- **The same projection found that more than two-thirds of retired couples could be expected to receive less than $3,000 in social security benefits in 1980.**
- **Even under earlier projections, now known to be too optimistic, only a third to two-fifths of all aged persons were expected to have income from private group pensions.**

It is for reasons like these that present inadequacies in retirement income—and the policies and trends that perpetuate them—are of urgent and direct concern to all workers and not just to our aged population.

Social Security, now the basic underpinning of retirement security, will continue to be the major source of income for most older people and the level of benefits will largely determine their share in economic abundance.

Social Security is family security.

Too often we forget—or have never realized—that the payroll taxes we pay for social security are providing not just assurance of income in old age but also current protection against the loss of earnings through death or disability.

Disability benefits are payable to a worker and his dependents if he has a severe physical or mental condition which prevents him from working and is expected to last (or has lasted) for at least a year or is expected to result in death.

Survivor benefits are payable to dependent children, a widow regardless of age who has a child under 18 or a disabled child in her care, a disabled widow aged 50 or older, and to a widow 60 or older even if there are no children entitled to payments.

The value of the survivor protection provided by social security is not always recognized. Here is an example:

> A young father of two small children, both under 5, is killed in an accident. His average earnings covered by social security were $450 a month (well below the average earnings in industry today or the maximum covered by social security).

His widow and children would receive about $345 each month in tax-exempt social security benefits, over $4,250 each year. By the time the older child reaches 18, this family could have received well over $55,000. And this would not be all—the children could continue to receive benefits until age 22 if they stay in school; the widow could again receive monthly benefits when she reaches 60.

Aged widows are an especially disadvantaged group and hence the family protection provided by social security is a key determinant in their economic welfare.

Many of today's aged widows have outlived husbands who never had an opportunity to build up rights to benefits under social security. Workers now have this opportunity—this obligation—to provide a base of economic security that extends beyond their own old age. Unlike those pension plans that require the worker himself to bear the cost of a benefit for his widow through a reduction in his retirement pension, social security pays an unreduced benefit to the couple and thereafter a benefit to the widow.

And the chances that a wife will outlive her husband are great. Beginning at middle age, a wife who is 5 years older than her husband (an unusual situation) has a 50-percent chance—one chance out of each two such couples—of eventually becoming a widow. If the wife is the same age as her husband, her chances of ending up as a widow increase to two out of three. If she is five years younger than her husband, her widowhood prospects increase to three out of four cases. If she is 10 years younger, the odds rise to four out of five.

PRIVATE PENSIONS AND THEIR ROLE IN RETIREMENT SECURITY

For those workers fortunate enough to qualify, private pensions provide important supplementation to the basic income assured through the social security system. But the projections summarized above make all too clear that, for the older population as a whole, the combination of private pensions and social security benefits will still leave the vast majority with woefully inadequate incomes. Hence, if our Nation really intends to provide an adequate income for its older people, it will have to do so through a greatly improved social security system.

The worker who is covered by a private pension plan—and there are nearly 30 million of them—has a tremendous stake in the contributions made to these plans, whether or not he himself contributes, because the contributions made by his employer can be viewed as "deferred wages." In too many cases, however, he will suffer what is in effect a retroactive pay cut since he will be unable to meet the age and service requirements that determine whether benefits will actually be paid.

To make the worker's stake in private pensions meaningful requires better vesting provisions (provisions that guarantee those covered by the plan that they will receive at least part of the pension benefit for which they have qualified, whether or not they are working under the plan at the time of their retirement). Vesting is of special importance to younger workers who will change jobs many times in the course of their working lifetimes. Of far greater concern to older workers—and they naturally are much more concerned about the adequacy of their private pensions than are younger workers— is the level of the benefit and the credit for service prior to the establishment of the plan.

This is only one of the sources of conflict in the purposes of private pension plans—the conflict in the objectives of older and younger workers—that "have contributed to the difficulties of developing a public attitude or policy regarding private plans," according to the working paper on "Pension Aspects of the Economics of Aging." Other conflicts identified therein include: Differing preferences between employers and employees regarding retirement flexibility and the age of retirement; a difference between large and small firm employees in the importance of social security benefits; a conflict between employers and the general interest of the economy with regard to labor mobility; and conflicts over allocation of the pay package. The latter, while not specifically a conflict regarding the purposes of private pensions, identifies the common problem faced by most workers today: "How can they allocate earnings to meet current obligations to their family and still have something left over for retirement?"

The worker's stake in private pensions is great and it will be even greater in the future. But at best, the impact will continue to be uneven; coverage will still be concentrated among higher paid workers while those in the greatest need in old age will be least likely to receive private pensions. The social security system will continue to be the Nation's basic method of assuring adequate retirement income to the aged. It is on this premise that decisions as to the adequacy of social security benefits must be made—not on the optimistic but ungrounded hope that virtually all workers will receive a private pension in addition to the social security benefits.

PRESSURES UPON THE INCOME OF THE WORKING POPULATION

Probably at no other time in our history have there been so many competing claims on the worker's paycheck. In large part, this is the result of living in a "buy now" economy when "now" is a period of intense inflation. There are other basic socioeconomic factors that account for an unprecedented pressure upon the incomes of workers.

One of these factors is the phenomenal growth in the child population, in combination with the longer period during which children remain dependent on their parents. In 1940, and as recently as 1950, there were two people in the so-called productive ages of 18–64 for every one child under 18. Currently the ratio is closer to three productive for two children under 18. But included in the productive group are countless children over age 18 who will continue to depend on their parents for support during many years of education. Gone are the days when a child was expected to begin contributing to the family's income no later than on his 18th birthday. Our affluent society expects—demands in order that one can compete on equal terms—continued education far beyond the level once accepted.

The pressure is felt, too, at the other end of the age scale. In 1940, there were 11 people aged 65 and older for every 100 aged 18–64. For the last decade this ratio has been in the neighborhood of 17 to 100 and it is not expected to increase markedly.

Here, too, we must reexamine the dependency ratio in realistic terms. In recent years, even though marked by high levels of employment, about half of all the men starting to receive their social security benefits were *under* age 65. This fact caused the Task Force on the Economics of Aging to point out that, with more and more workers retiring before 65, the dependency ratio changes and we must reexamine conclusions that any rise in the economic costs of supporting the nonworking population will not be due to a rising proportion of older people.

The working paper on "Employment Aspects of the Economics of Aging" makes this clear with a ratio that related the older population to the population aged 20 through 64—a more realistic starting age for the productive population. This dependency ratio is now 18.2 per 100; if workers aged 60 and over continue to be eased out of the labor force, this dependency ratio could easily rise to 28.3 per 100 in the years immediately ahead. In other words, 100 people would be working to support 28 people aged 60 or over through social security benefits, old age assistance, private pensions, help from the family, or other sources.

Facts like these help to explain why the worker is feeling unprecedented pressures on his income; why his obligations to his own family plus his costs for supporting the older population—so that he, in turn, will be supported in his old age by that working population—leave him little leeway for putting aside additional savings for the retirement years.

The cost of income maintenance of the aged population is increased by early retirement. Furthermore, during the lengthened period spent in retirement, the income gap between the retiree and the worker will become ever wider. This is because (1) early retirement reduces the amount of wage replacement provided by pensions, both public and private; (2) the fact that any assets accumulated for retirement must be spread over a greater number of years; and (3) inflation of the price level further erodes the purchasing power of available money incomes.

The Task Force on the Economics of Aging sounded the following hopeful note that the present trend toward early retirement might actually be reversed, not just slowed:

> *The possibility of a reversal in the trend toward early retirement cannot be ignored.* As compared to today's older population, workers who reach old age in the future will undoubtedly have higher educational achievement and can be expected to have better health status; a higher proportion will be nonproductive workers. We question whether there is presently sound ground for believing that they will want to accept patterns of early retirement or even retirement at the ritualistic figure of 65. In other words, work and retirement patterns that have characterized the past few decades will not automatically be extended into the future.

SOCIAL SECURITY COSTS WHICH WORKERS SHOULD NOT BE EXPECTED TO BEAR

Over the years since the introduction of Social Security, workers have shown a commendable willingness to pay social security taxes. In no small part, this willingness stems from a recognition that taxes paid out of earnings will entitle them to continue to share in productivity after their working years are over.

But the obligation to pay social security taxes carries with it a right to be sure that these taxes are used to best achieve retirement security for today's older population.

Workers should not be expected to pay higher social security taxes in order to provide full social security benefits for those aged people who are able to continue to engage in fulltime employment.[1]

Our social security program was never intended to be an annuity program that would reward people simply for attaining a given age. It was designed to insure workers and their families against the risk of a loss of earnings arising from retirement from work (either compulsory or voluntary) in old age or from disability or death. Appropriately then, the law includes a retirement test to determine whether there has actually been a loss of earnings. This test relates only to earned income. To apply an overall test extending to income from interest, dividends, private pensions, et cetera, would not only be inconsistent with the basic purpose of the test, but could serve to discourage efforts for building supplementary protection for old age through private arrangements, both individual and group.

The retirement test now in the law needs to be modernized and liberalized. To do so would be very inexpensive. But to eliminate the test completely would be costly, requiring a substantial increase in taxes—two-thirds of a percent of payroll—that could better be used to raise benefits for those unable to earn.

Relatively few of all aged people would gain from elimination of the retirement test—less than one in 10 of all people 65 and older. And these are the very people least in need of additional income. They include the self-employed and the professionals who do not encounter the same age barriers to gainful activity as other members of the labor force. Why should employees be subjected to higher social security taxes in order to provide old-age benefits to people, including the highest paid professionals and business executives, who are still working?

Workers should not be expected to pay higher social security taxes in order to pay a high minimum benefit to people who barely meet eligibility qualifications because their lifetime work has been in noncovered employment.

The present minimum social security benefit—$64 as a result of the recent 15-percent increase—is woefully inadequate for those people who have spent substantial time working in low-paid or seasonal jobs. Particularly now that the welfare reform proposal before the Congress would establish a minimum standard of $110 a month for old-age assistance, the level of the minimum social security payment should be raised; otherwise more and more older people with low social security

[1] For a fuller discussion, see app. A ("The Retirement Test in Social Security" by Nelson H. Cruikshank, President, National Council of Senior Citizens, Inc.)

benefits will need to turn to the assistance program for supplementation of their obviously inadequate incomes.

In other instances, minimum or low social security benefits are the result of minimal work in covered employment. For example, a Government employee may have retired on his civil service annuity and then gone to work in a job covered by social security, working just long enough to qualify. There would seem to be little social justification in paying a high minimum benefit to such people.

A substantial increase in the minimum should therefore be accompanied by appropriate eligibility requirements that assure that the costs thereof are socially justified.

Workers should not be expected to pay higher social security taxes in order to provide full benefits for workers who chose to retire early.

As pointed out above, a large portion of early retirements are not voluntary. Older workers are encountering increasing difficulty in getting and holding on to jobs and they have no choice but to elect the reduced benefit.

The task force working paper called for consideration of approaches that more directly attack the problem of involuntary early retirement, including (1) improvement in public and private disability coverage and provisions; (2) institution of extended unemployment compensation benefits for older workers; and (3) job retraining—together with a vigorous labor market sustained by appropriate monetary-fiscal policy.

And the task force sounded a warning of utmost importance to all workers and especially to older workers when it said:

> By institutionalizing a lower age for initial eligibility for retirement benefits, the average age for retirement may be pushed lower and employment opportunities for older workers adversely affected.

In one way or another, whether through payroll taxes or income taxes, workers will help to pay the costs of income maintenance for their fellow workers who are pushed out of the labor force prematurely. But they should not be asked to shoulder the additional costs of early retirement for workers who choose to retire early in order to enjoy leisure and with assured income through early retirement benefits under their private pension plans.

Workers should not be asked to pay for uncontrolled runaway medical costs.

This Nation's workers willingly shouldered the costs of Medicare as the preferred method of financing medical costs for their own parents and grandparents as well as providing assurance that they themselves would have protection in their own old age. They have witnessed the immeasurable value of Medicare in making urgently needed medical care available to old people and in saving them from financial ruin. But they have also witnessed an unprecedented rise in medical costs that affects not only the taxes paid for Medicare and Medicaid but the amount they pay out-of-pocket or for health insurance for the health care of their own families.

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Old and young alike are dependent for their medical care on the same health care system—or "nonsystem" as it has frequently been called. This system badly needs organization and improvement. Whatever can be done to improve the system for one group in the population will improve the system for all others.

The worker's stake in controlling costs and in improving the delivery of health services is thus of paramount importance for his well-being today as well as in the future.

A MORE EQUITABLE BASIS FOR SHARING COSTS

The costs of supporting our aged population are already large and will have to be much larger to assure old people a full share of the Nation's economic abundance. The working population cannot escape these costs. Workers of all ages, therefore, have a vital stake in making sure that the financial burden is spread in the most equitable manner.

The major part of the cost of retirement security is now met through the social security payroll tax. In recent years, an increasing number of low-income families have paid more in social security taxes than in income taxes.

The social security contribution rate is uniform and does not apply at all to higher levels of earnings. Workers with low earnings therefore pay a larger percent of their total incomes than do higher paid workers. The tax considered just as a tax, is thus regressive even though this regressivity is offset to a considerable degree by a benefit formula that replaces a higher proportion of earnings for those at low wage levels. The tax is also a percentage of wages rather than a flat amount as is the case in most private insurance premiums.

The time will soon be reached—if it is not already here—when it will be difficult to levy a regressive tax on low-paid workers at the higher rates needed to finance benefit improvements. The regressive nature of the social security tax can be relieved in two ways: by a higher wage base—raised substantially more than through past actions—and by use of general revenues. A combination of the two methods would be best. Serious consideration must therefore be given to the use of general revenues as a more equitable basis for sharing these costs.

There is sound justification for financing through general revenues that part of social security costs which is equivalent to prior service credits. Workers already close to retirement age when the system was first started, or when coverage was extended to their employment, received full benefits even though the contributions they and their employers paid would finance only a small part of the benefit. While this was sound public policy and kept many old people off relief, it did mean that these benefits had to be financed from future contributions. There is no justification for expecting presently covered workers to pay for this "accrued liability"—estimated in the long run to amount to one-third of the total cost of the program—through a regressive payroll tax. A far fairer method would be to finance this share from general revenue sources to which all taxpayers contribute and through a more progressive tax structure.

CONCLUSION: THE NEED FOR BOLD REFORM

Our Social Security program, when enacted 35 years ago, was a bold and forward-looking step for a nation acutely suffering from a gigantic depression. But most of the steps to improve the program over the years have been far from bold. These actions—and the 15-percent increase in benefits is the most recent of a long line of examples—have been aimed primarily at alleviating the all too obvious hardship of a retired population that was struggling to keep abreast of rising price levels.

In combination, these efforts have not attempted to tap the Nation's rising productivity or to keep benefits abreast of our rising standard of living. They have instead perpetuated the depression philosophy which gave birth to our social security program.

Bold new steps are long overdue, steps that would immediately enable today's retirees to share in the abundance they helped to create and that would assure to future retirees—today's workers—an income that is adequate in relation to their standard of living prior to retirement. Such assurances can be provided only through major improvements in our time-tested social security system.

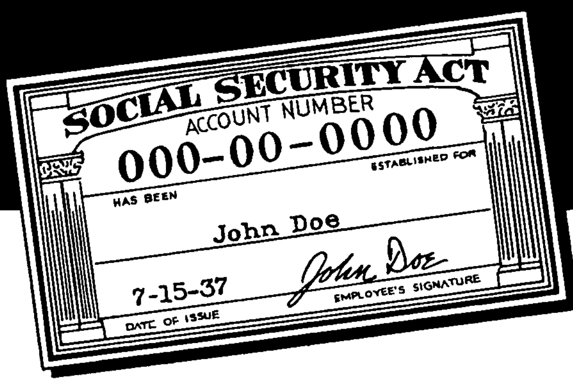
To provide such assurance requires a *meaningful increase* in benefit levels. The benefit level has not been significantly raised since 1950 when, after a long period during which only minor adjustment had been made, benefits were increased by an average of 77 percent. The two decades since have been marked by dramatic increases in productivity, earning capacity, costs, and standards of living. It is time now for a major overhaul in the benefit structure and financing of the system.

A carefully designed plan for social security reform has been proposed by Senator Williams and Congressman Gilbert and their numerous cosponsors in their identical bills (S. 3100 and H.R. 14430). The proposal includes:

- An immediate increase of 5 percent in monthly cash benefits with a further 20-percent increase effective January 1, 1972. This two-step increase would raise the minimum benefit to $120 a month in 1972. The maximum benefit (now approximately $190 a month) would go to $340 a month in 1974.
- Thereafter, automatic increases geared to increases in living costs.
- A widow's benefit at age 65 equal to the husband's benefit.
- Improved benefits for workers retiring before age 65.
- Liberalized disability benefits.
- An increase from $1,680 to $1,800 a year in earnings permissible for retirees without loss of any social security benefits and a liberalization in the treatment of earnings above $1,800.
- Elimination of the monthly premium—slated to rise to $5.30 this July—for Medicare part B (doctor insurance).
- Extension of Medicare to out-of-hospital prescription drugs.
- Coverage under Medicare of disabled persons under age 65.
- Earnings up to $15,000 a year credited for social security benefits with benefits based on 10 years of the 15 years of highest earnings.
- A more equitable financing method through a higher earnings base for payroll taxes and through a gradually increasing Government contribution eventually equal to approximately one-third the total cost of the cash benefits program.

These major improvements in Social Security would immediately greatly enhance the economic security of workers already retired. Equally important, they would make long-range changes appropriate to the dynamic nature of our economy. Through this major reform, today's workers can come closer to realizing their full stake in retirement security.

THE RETIREMENT TEST IN SOCIAL SECURITY



BY

NELSON H. CRUIKSHANK
PRESIDENT

NATIONAL COUNCIL OF
SENIOR CITIZENS, INC.

This study of the retirement test in Social Security — approved by the National Council's Executive Board — was conducted in response to a mandate of the Eighth National Convention of the National Council of Senior Citizens which was held in Washington, D.C., June 5-7, 1969.

ABOUT THE AUTHOR

Nelson H. Cruikshank, President of the National Council of Senior Citizens, is an authority on social insurance and the Social Security System. Born at Bradner, Ohio, in 1902, he attended public school at Fostoria, Ohio, went to Ohio Wesleyan University. He graduated from there in 1925, and from Union Theological Seminary, New York City, in 1929.

During the 1930's, he conducted a relief program in New York for the Brooklyn Federation of Churches, a worker's education program at New York University and ran a migratory labor camp program for the Federal Government.

After service as a top official of the War Manpower Commission in World War II, he became Director of Social Insurance Activities for the American Federation of Labor, a post he held for six years. He then was named Director of the European Labor Division for the U.S. Economic Cooperation Administration, with headquarters in Paris, France.

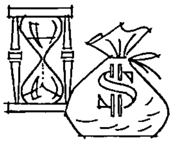
Cruikshank served as Director of the AFL-CIO Social Security Department from 1955 until his retirement in 1965.

After retirement he held appointments as Visiting Professor at Michigan State University and Pennsylvania State University, and as Lecturer in Social Work at the University of Michigan.

He was a member of the Government's statutory advisory councils on social security in 1948-49, 1958-59 and 1964. He was a member of a special consultants' group to advise the Secretary of Health, Education, and Welfare on social security in 1954.

Cruikshank has been a member of the Advisory Council on Employment Security, U.S. Labor Department, serving three terms in that post. He was an original member of the Health Insurance Benefits Advisory Council set up under the Social Security Amendments of 1965 to advise the Secretary of Health, Education and Welfare on Medicare. In 1968, he was re-appointed to this Council for a four-year term.

A founding member, Cruikshank was elected President of the National Council of Senior Citizens in 1969.



THE RETIREMENT TEST IN SOCIAL SECURITY

The retirement test is just what the name implies, though it is often referred to by other names, such as, "Earnings Test," or "Work Test." It is a test basically in terms of dollars earned in a year to determine whether a person otherwise eligible for social security retirement benefits can be considered retired.

The reason for there being such a test rests on the fact that the old age survivors and disability insurance provisions of the Social Security Act are designed to insure individuals and families against the risk of a loss of earnings arising from retirement from work (either compulsory or voluntary) in old age or from disability or death. It is comparable in concept to unemployment insurance or on-the-job injury insurance (Workman's Compensation) under which the benefits are not payable unless the worker is actually unemployed or has suffered injury resulting in loss of wages. Just so, benefits are not payable under the retirement test provisions of the social security program to those between the retirement eligibility age and age 72 unless the worker can be considered substantially retired.

Confusion about the nature and purpose of this program frequently arises from comparing it with a straight annuity program where benefits are paid when a person reaches a specified age, regardless of any earnings the retiree may have. Such programs are quite different in basic concept from that of insurance against *loss of earnings* and require substantially more financial support than that provided under the social security tax schedule. In other words, to have made social security an annuity program permitting the payment of benefits to people with unlimited earnings after retirement would have required much higher contributions from workers and employers and the self-employed than they have been paying all these years. Alternatively, to adopt such a system now would demand the expenditure of $2.5 billion for the first year (and more in future years) to benefit *less than one out of every ten aged* people in America. Those benefiting would be those who enjoyed the highest earnings and who, presumably have less financial need in retirement. The question of what other benefits could be added for all social security beneficiaries for the same amount of money that removing the retirement test would cost is the real heart of the issue. The reasons for this conclusion are set forth in the following sections.

HISTORICAL BACKGROUND

The test of retirement has undergone a series of modifications since social security was first enacted in 1935. These reflect some changes in the basic concepts of the program as well as modifications that Congress felt desirable because of changes in economic conditions.

The earnings test originally applied only to earnings in "covered" employment because it was not thought to be administratively feasible, with the limited coverage of the program, to apply the test to *all* gainful employment. Theoretically, this left an individual worker upon retirement from his regular job free to supplement his benefits by getting a job in agriculture, domestic service, city or state government, or any other employment not then covered by social security. The freedom to earn wages in noncovered employment, however, in depression days, was more theoretical than real.

In 1939, before benefits became payable, the act was changed to allow a limited amount of earnings in covered employment while still permitting a beneficiary to be considered retired. The limit was $14.99 a month. This amount was changed to $50 in 1950, and $75 in 1952 for employees, and at the same time, a test for the newly covered, self-employed was implemented on a comparable annual earnings basis ($600 in 1950 and $900 in 1952). The test for retirement for self-employed workers was made to rest more on the test of whether the individual rendered "substantial services," though amounts of earnings are also considered in the determination as to whether he has actually retired.

In 1954 the law was changed so that the test applied to all earnings, not just earnings in covered employment and a combination annual and monthly test was instituted for both employees and the self-employed. The 1954 amendments set $1200 as the amount a beneficiary could earn and get all of his benefits. If earnings exceeded $1200, one month's benefit was withheld for each $80 or fraction thereof earned above $1200. However, no benefits were withheld for any month in which the worker neither earned more than $80 in wages nor rendered substantial services in self-employment.

The 1958 amendments provided that a beneficiary who earned above $1200 in a year would not have a benefit withheld for any month in which he earned wages of $100 or less (rather than $80 as previously provided).

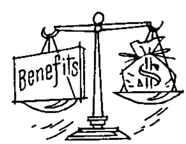
A major change in the retirement test was provided by the 1960 social security amendments. Under this change benefits were adjusted in direct ratio to the amount of earnings above $1200 — $1 in benefits was withheld for each $2 in earnings from $1200 to $1500 and for each $1 above $1500. As under previous law, no benefits were withheld for any month in which a beneficiary neither earned wages of more than $100 nor rendered substantial services in self-employment.

Further modifications were made in 1961 and 1965. The present provisions are contained in the social security amendments of 1967.

This is how the present provisions of the retirement test operate for an individual who is under 72 years of age and who is otherwise eligible for retirement benefits:

> If he earns $1680 or less during the year nothing will be withheld from his benefits. If he earns more than $1680 in the year, for each $2 of earnings above $1680 and up to $2880, $1 will be withheld from his benefits. For each $1 of earnings above $2880, $1 will be withheld. However, regardless of total earnings in the year, benefits are payable for any month in which he neither earns wages of more than $140 nor performs substantial services in self-employment.

ATTEMPTS TO REMOVE THE RETIREMENT TEST



There have been persistent attempts to repeal or drastically modify the retirement test. Many bills are introduced in every session of Congress for this purpose. The criticisms of the test have a wide appeal — especially to those who are not acquainted with the basic purposes and design of the social security law.

For example, critics allege an "inequity" in the fact that a retired person may derive substantial income from savings and investment without loss of any of his social security benefits while a worker who earns more than $1680 in a year — even if it is only a small amount — has his benefits reduced.

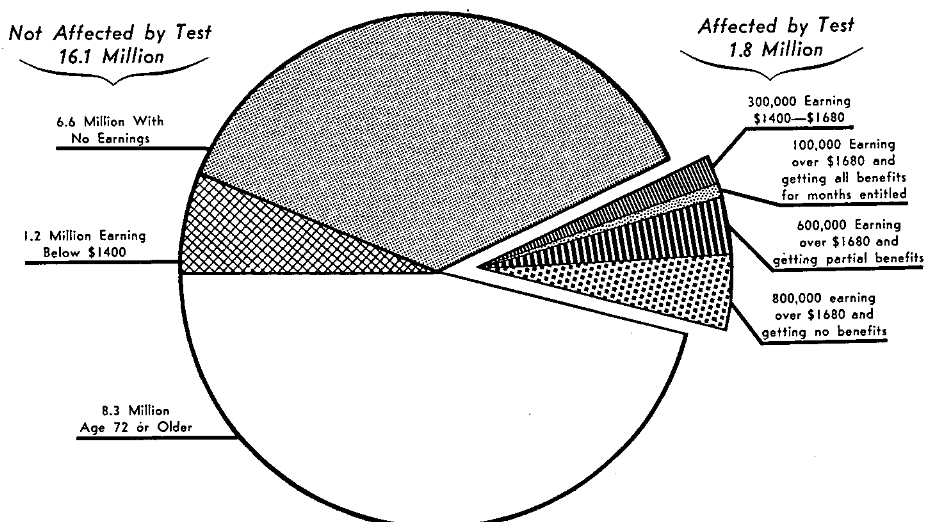
The investor who gets social security retirement benefits can do so only when he has retired and thus he has suffered a loss of earnings — which was the risk insured against under the social security system. The question of his need as compared with that of a less affluent neighbor — does not relate to his eligibility. That's the way insurance works — including social insurance.

Another argument frequently advanced against the retirement test is that the worker has paid social security taxes most of his working life and, therefore, "has paid for" his benefit; it is an "earned" right and should not be denied him simply because he chooses to keep working.

The social security system accepts the principle of entitlement to a retirement benefit as an "earned right" only to distinguish the basis of entitlement from that resting on a person's need. In the case of government programs, need usually means a proven need and this involves a means test. The fact is that the typical full-time individual worker has not made contributions (paid taxes) into the social security system, even including those paid by his employer, that represent more than a small fraction of the total amount of benefits due such a worker based on his normal life expectancy. So, in reality, he has not "paid for" his benefits though they are recognized as an earned right. The social security deductions that have been taken from his pay represent "premiums" that go to insure a portion of his earnings against loss resulting from retirement and he should not expect to draw his benefits without suffering a loss of earnings from work any more than he can expect to collect on his fire insurance when his house has not burned.

Another plea often made in support of removing the retirement test is based on the present low level of social security benefits. The inadequacy of benefits, especially in light of current steep increases in living costs cannot be denied. The answer to the need for greater incomes for the elderly, however, does not lie in permitting the relatively few who are still young enough and healthy enough to work and for whom there are available jobs to draw benefits while continuing to work — especially when to do so would be so costly to the system as to make it more difficult to obtain other needed improvements that would help all retired people. The National Council of Senior Citizens, recognizing the critical need for greater income for the elderly, supports a program for increasing social security benefits by fifty

NUMBER* OF PEOPLE AFFECTED BY SOCIAL SECURITY RETIREMENT TEST



*17.9 Million Eligible People Aged 65 and Older
(As of January 1, 1969)

Source: Social Security Administration
U.S. Department of HEW

per cent, with even larger increases at the lower end of the benefit scale.

Why are persons 72 and older not required to meet the retirement test? The answer is that though the insurance principle is fundamental to the social security system, it is not taken over without modification from private or commercial insurance programs. For example, there is a weighting of the formula for determination of benefit amounts in favor of the lower paid worker which is a departure from the rule that the amount of indemnity be directly related to the amount of the loss or the size of the premiums. Social security departs from rigid commercial insurance standards in a number of ways that Congress has determined enable the system better to meet its social objectives.

It must be borne in mind that many people beyond 72 years of age who are still working may never retire. The 7 years during which these people did not draw benefits because they did not retire represents a considerable saving to the system, not to mention the fact that they still continue to pay social security taxes on their earnings. Of course, many of those aged 72 and over who work have retired from their regular full-time job, or partially retired, but once having left their regular job, it is not likely their earnings will be very high in most cases. Based on such considerations of equity, those over 72 have been relieved of the retirement test.

WHO WOULD BE HELPED IF THE RETIREMENT TEST WERE REMOVED?

More important than all considerations of the theory or principle on which the retirement test rests is the question of its impact on older people. Who and how many would be helped if it were removed, and who and how many would be injured?

The accompanying pie chart shows the number of people affected and the number not affected by the retirement test out of the total 17.9 million persons aged 65 and older and eligible for social security benefits as of early 1969.

Actually, the number affected by the retirement test is quite small when considered as percentage of the total. The 17.9 million represents all those eligible for cash benefits, either as workers, or as dependents or survivors of a worker. Of the 17.9 million, only 1.4 million — about 8 per cent — had any benefits withheld under the retirement test in 1968. There were 8.3 million aged 72 and older during all of 1968 and, thus, not subject to the test. (Beneficiaries under age 65 are not included in the chart; the percentage of beneficiaries under age 65 with benefits withheld is considerably less than for those 65 and over.)

There are 8.1 million people who were under age 72 and subject to the test but who earned less than $1680, the annual exempt amount of earnings. Among these 8.1 million, 6.6 million had no earnings at all, and another 1.2 million had earnings of less than $1400; almost all of the people in these two groups were probably either unable to earn as much as $1680 a year or preferred not to work enough to do so.

The remaining 300,000 of the 8.1 million had earnings between $1400 and $1680 and received full benefits for the year. Some of these 300,000 — probably most of them — held their earnings down, either because they did not understand the retirement test or because they wanted to get all of their benefits; many of them would have earned more than they did if there had been no test or if the $1680 exempt amount had been higher. Others no doubt earned all that they could earn.

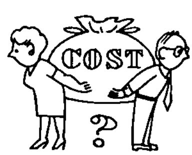
There were about 100,000 people who earned more than $1680 and had no benefits withheld. These were largely people who in the year in which they retired and started getting benefits had either no earnings or earnings not exceeding $140 a month after they retired. Others were self-employed but did not render substantial services in their businesses.

Another group of about 600,000 earned over $1680 (or were dependents of persons who earned over $1680) and received some but not all of their benefits. Many of these workers earned all that they could earn.

The remaining 800,000 includes workers who earned over $1680 (or were dependents of such workers) and whose earnings were high enough so that no benefits were payable. Most of these workers undoubtedly had not retired and were earning as much as they ever did. If there had been no retirement test, they could have received full benefits.

The chart identifies the 1.8 million people who may be thought of as directly affected by the retirement test — those under age 72 whose earnings exceeded $1680 and those who earned between $1400 and $1680 and who likely held their earnings down because of the test. Thus, eliminating the test would help less than 10 per cent of the people who are aged 65 and older and eligible for benefits, and these would generally be those least in need of additional income.

WHO WOULD BE HARMED BY THE ELIMINATION OF THE RETIREMENT TEST?



The answer to this question depends largely on three factors; (1) What the cost would be, (2) how that cost would be distributed among taxpayers, and (3) what other changes in the program might be discarded because of the cost of this one.

The dollar cost to the present program of eliminating the test would be about 2.5 billion dollars for the first year. The long-term level cost would be, according to actuarial estimates, about 0.66 per cent of taxable payroll. Raising the annual exempt amount from $1680 to $3000 as some advocate would cost about $1.75 billion for the first year with a long-term cost of 0.47 per cent of taxable payroll.

It would, of course, be theoretically possible to eliminate the test and add the cost to the present social security tax schedule and, thus, require those who are still working (and future workers) to carry the load. This is, however, neither socially desirable nor politically feasible in the light of the figures cited above showing that, at the most, less than 10 per cent of the elderly would benefit and this group would be the least in need of additional income. Workers have shown a commendable willingness to pay social security taxes; but it is doubtful the same willingness would be shown toward a steep increase in taxes to pay benefits to people including the highest paid professionals and business executives who are still working.

Any degree of political realism leads to the inevitable conclusion that if such a costly change were made in the social security system, it would be very much more difficult to secure other changes which also entail increased costs. The question of what other benefits might be added to the program for the same or comparable cost brings us to the heart of the issue.

An across-the-board 5.5 per cent increase in all benefits for all the 25 million plus now getting benefits would cost about the same as raising the exempt amount of the retirement test to $3000.

The 0.66 per cent increase in social security tax necessary to meet the cost of eliminating the test would pay for all the following improvements: provide a widows' benefit at age 65 equal to 100% of deceased spouses' benefits (.26); permit an age 62 benefit computation for men in the same manner as for women (.10); reduce the waiting period for disability benefits from 6 to 3 months and without regard to subsequent duration of disability (.15); and extend the provision in present law that applies to older blind workers to all older disabled workers (.10).

So in a very real sense all the people, the widows, the disabled, and all beneficiaries who would benefit by alternative liberalizations, costing approximately the same amount, would be the ones who would be paying for the elimination of the retirement test.

When the same question is put in another way, the policy issue is even more evident. If we had $2.5 billion a year (the cost of eliminating the retirement test for the first year) to distribute among the elderly, where would we put it? It is hardly conceivable that we would distribute it only among less than 10 per cent of the elderly who made up the group now affected by the retirement test and which includes all those having the highest earnings. Surely, we would consider first the needs of the elderly who are unable to continue work. This, essentially, is the issue before us.

CONCLUSION

It would appear evident from the facts and figures cited above that the elimination of the retirement test in the social security program is neither practicable nor desirable since it would help a comparatively small number who are least in need and deprive a very large number, including those most in need of the benefit, of possible improvements in the program.

This conclusion does not mean, however, that the National Council of Senior Citizens is wedded for all time to the retirement test in its present form. The test as we have shown has been liberalized and updated several times in the past and there are sound reasons for continuing this practice. In line with this policy, the Council supports the liberalization advanced in the Gilbert Bill (H.R. 14430).

This bill would increase the exempt amount of earnings from the presently allowed $1680 to $1800, effective January, 1970. The bill provides a corresponding increase, from $140 to $150, in the amount a person can earn in a month and still get benefits regardless of earnings for the year. The bill further provides that the test be changed to assure that a person will not suffer a reduction in spendable income (that is, social security benefits after application of the retirement test plus earnings after taxes) as a result of working. There would be no change in the $1 for $2 withholding for the first $1200 of earnings above the annual exempt amount, but above that only $3 in benefits would be withheld for each $4 of earnings. There would be no point at which $1 in benefits would be withheld for $1 of earnings.

The Gilbert bill would also provide for automatic adjustment of the annual exempt amount of earnings under the retirement test to increases in earning levels, effective beginning January, 1975. This provision would assure beneficiaries dependent on earnings from work that they would be able to maintain their economic level to a significant degree.

The proposals in H.R. 14430 would meet the deficiencies of the present retirement test, provide a means of keeping the test up-to-date without violating the basic principles of the social security system, and without burdening the system with such heavy costs as to jeopardize other improvements so badly needed by the great majority of the elderly who depend on social security for their chief source of income after retirement.