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CONGRESSIONAL BRIEFING ON THE 50TH ANNIVERSARY OF SOCIAL SECURITY

AN INFORMATION PAPER

PREPARED BY THE STAFF OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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This document has been printed for information purposes. It does not offer findings or recommendations by this committee.

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PREFACE

We are here today on the anniversary eve of one of the most significant moments in American history—the signing into law of the Social Security Act. With a stroke of his pen, President Franklin Delano Roosevelt sealed a compact among all future generations of Americans. This compact, conceived in one of our Nation's darkest hours, recognized that dependency and destitution too often accompany old age. The Social Security Act symbolizes a national commitment to free "the average citizen and his family" from the grip of these grim companions.

"We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life," President Roosevelt said 50 years ago, "but we have tried to frame a law which will give some measure of protection . . . against the loss of a job and against poverty-ridden old age."

The genius of Social Security is that it captures and bonds together these seemingly conflicting American characteristics: Our fierce commitment to economic independence and our spirit of community.

These are not new, elusive values. Far from it. But in Social Security they merge in a new compact—a hand of trust extended between the generations. Older citizens achieved a degree of financial independence, security and yes, dignity that otherwise would have been impossible. And for younger workers, the burden of supporting older relatives was lightened and made more predictable. Social Security took the shape of an onrolling tide: Generation after generation is lifted to the crest of the wave, supported by the currents flowing behind.

The very idea of "social security" was revolutionary in its time—but today all America recognizes its benefits. Social Security has become the foundation of our Nation's social policy.

But this anniversary should be more than a time for celebrating the generosity and ingenuity of Americans. It should be a time for reflection, for evaluating the program and its success in meeting its historic goals.

As Chairman of the United States Senate Special Committee on Aging, charged with oversight of Federal programs that protect older Americans, I am delighted to accept that assignment. I would like to offer an "official" evaluation of Social Security's success in meeting its historic objectives—and how these objectives themselves have weathered the economic, political and demographic upheavals of the past five decades.

I am pleased to say our birthday child is a star pupil.

We have graded Social Security in achieving five of its primary goals: Economic security; economic reliability; financial soundness; administration; and public support.

Economic security, in the sense of a minimum, stable income, was the principal goal of the legislation. "We must establish a sound means to banish the specter of old-age destitution from the American home and farm," the bill's drafters said.

The program deserves a top grade for achieving this goal. Without Social Security, 1 in every 2 older Americans would live in poverty. In fact, Social Security benefits have helped pull fully four-fifths of older citizens above the poverty level. Surely it deserves an "A" here.

A second major goal was reliability in benefits paid out. If Social Security benefits are the framework for a comfortable retirement, then these benefits must not warp or shrink over time or the house will fall down.

So how do we evaluate the program's success in providing a reliable, stable income basis? Perhaps the best way is to compare the level of income assured retired persons at the program's enactment with the income assured a retired worker today.

Congress in 1935 designed the benefits schedule to guarantee the *average* worker 40 percent of his *average* salary in retirement. Today's worker can anticipate the same percentage of pre-retirement income in benefits. That's 50 years of a consistent income replacement level—fully deserving of an "A".

What about financial soundness? Two years ago, the Congress acted to restore financial solvency to the Social Security retirement program, removing the threat of both short- and long-term deficits. The trust fund was restored to health and is on the road to building a comfortable cushion. That Congress responded swiftly and decisively in 1983 reaffirms Social Security as a community commitment, not just a financial program. Those amendments underscore the strength of the compact made 50 years ago and the will of the people to honor that compact today. Another "A" here.

At the risk of facing charges of "teacher's pet" in my grading, I would also give the Social Security Program top marks for the next two subjects on the report card: Administration and public support.

Several recent hearings before the Committee on Aging have focused on the issue of administration, highlighting major areas for improvement. We still have problems to correct in getting the right check to the right person on time and in written communications which are often incomplete and overly complex. But there are some exciting new changes in the works, such as bringing the field offices into the computer age. And high marks are deservedly due a national program that last year spent only 1.2 cents of each dollar collected for operating costs, and still managed to get some 36 million checks out each month. On administration, I award an "A".

What about public support? Do Americans of all age and income levels feel the results are worth the investment of dollars from payroll taxes? Without question.

Ninety-six percent of Americans interviewed in a recent survey said Social Security is an important Government program, with 66 percent placing it among the "very most important" programs. Eighty-eight percent think Social Security should be continued; 65

percent felt this strongly. Almost unanimously, those polled agreed that Social Security benefits are an essential source of income for older Americans. I know a few politicians who wished their polls looked that good. A fifth "A" goes here.

That massive vote of confidence tells us something about Americans—they want Social Security around for another 50 years, and another 50 years, and so on for generations to come, protecting their parents, themselves and their children from the "hazards and vicissitudes" of which President Roosevelt spoke.

What is lacking among Americans today is the confidence that politicians can pull that off. Much of the baby boom generation fears retirement without Social Security. In a recent survey, 1 in 3 respondents said they were "not too confident" about the future of Social Security; at least 1 in 6 said they are not confident at all.

And no wonder. Repeated financing crises have led people to believe that the system cannot pay for itself. Media coverage portrays hard-strapped, working-age taxpayers financially crippled by a middle-class "special interest" group—their parents and grandparents. Or the press depicts Social Security as a bloated social program that will bankrupt our Nation at some point in the future.

But we know better. Our report card shows that Social Security has met or exceeded the expectations set for it 50 years ago. As long as we measure performance within an historic context, the program passes magna cum laude. So why the concern?

I suspect the waning of public confidence in Social Security stems from deeper-seated anxieties—the painful but normal reactions to the so-called "graying" of our society.

The United States today stands at a demographic turning point—for the first time in our history, there are as many Americans aged 65 and over as teenagers. Never in the history of the world has any nation experienced such a rapid growth in the large numbers of people living such long and full lives.

Younger Americans can be forgiven their concern about the ability of a system designed before most of them were born to handle the strain of a mushrooming older population as we near the 21st century.

Finally, our confidence in Social Security has been eroded because of our inflated expectations: Too many of us believe that this program should meet all the needs of the elderly in an aging nation.

Take health care. Medicare, the mid-life child of Social Security, was intended to insure against potentially devastating costs of short-term or acute care. As successful as this program has been, it was not designed to meet what *is* in fact the greatest health-related fear for all Americans: The crippling costs of a long-term or chronic illness.

Recent statistics from one community show that 2 out of every 3 older persons confined in a nursing home became destitute within 13 short weeks; an astounding 4 out of 5 were impoverished within a year.

Does the fault here lie with Social Security? Clearly not. But given the void of options to buffer the impact of long-term care expenses, it is not surprising that older Americans turn to the *only* program which has provided them with any measure of security and expect it to rise to yet another challenge.

A second inflated expectation stems from the many Americans retiring today who depend on Social Security as their sole source of income. Now, no one intended that a benefit which today averages $500 per month would be sufficient to provide complete economic independence. Understandably, those who wait each month for their benefit check to pay the rent, the utilities, buy food, clothing and medical care might feel shortchanged.

Let this point be clear: Anxiety over health costs and income are justified; but Social Security cannot be found wanting because of the gaps between our expectations and the reality of its founders' intentions.

Congress has a role both in dissipating anixety about the program's future and in correcting misapprehensions about its historical goals. We must confirm our faith in the durability of the cornerstone laid 50 years ago—a cornerstone crafted from marble, not sandstone—its core solid, its rough edges reshaped by the will of the people but uneroded by time.

One way I have proposed to restore faith in the system is to remove it from the rest of the Federal budget—and thereby remove it as a target for irresponsible budget cutting. If today the message of Social Security is not being heard, it's because it is being drowned out by the hue and cry of deficit reduction.

By taking Social Security out of the budget debate, we can begin to restore public confidence in the financial soundness and political stability of this truely unique program.

But we must remember and remind our constituencies that the Social Security Act was just a cornerstone—upon which other programs could be erected to ensure the financial security and physical well-being of America's seniors. It was the beginning, not the end, of this Nation's retirement policy. In the words of a Congressional report of May 1935, "this bill is not to be considered a cure-all, nor a complete measure for economic security. It will doubtless have to be supplemented in the course of time."

The birth of Social Security 50 years ago was greeted with great hope, and great skepticism. The program has borne the test of time, of revisions, and of continued skepticism. It stands today intact, true to its underlying compact, a tribute to the genius of the American spirit and the dignity of our national commitment to the greater good.

As we celebrate this remarkable system and the achievement it represents, let us pledge to continue to come together as a community, harnessing our individual strengths while putting aside bitterness and divisive self-interest. For in so doing, we can complete that task as its architects intended, for the benefit of those who have already worked so hard to build the America we enjoy today—and for generations to come.

John Heinz,
Chairman.

SOCIAL SECURITY: A 50-YEAR REPORT CARD

GRADE	SUBJECT	COMMENTS
A	*ECONOMIC SECURITY*	Provides minimum, stable income
A	*ECONOMIC RELIABILITY*	Fulfills goals established in 1935
A	*FINANCIAL SOUNDNESS*	Trust Fund secure for at least 75 years
A	*ADMINISTRATION*	Sends out 36 million checks monthly Spends only 1.2¢ on the dollar
A	*PUBLIC SUPPORT*	96 percent endorse
C	*PUBLIC CONFIDENCE*	Misplaced anxiety

Prepared for the American People by the Senate Special Committee on Aging, John Heinz (R-PA) Chairman, with Robert J. Myers former Deputy Commissioner and Chief Actuary of Social Security

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THE 50TH ANNIVERSARY OF SOCIAL SECURITY

TUESDAY, AUGUST 13, 1985

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Pittsburgh, PA.

The committee met, pursuant to notice, at 10:10 a.m., in the Wherret Room, Skibo Building, Carnegie-Mellon University, Pittsburgh, PA, Hon. John Heinz presiding.

Present: Senator Heinz.

Also present: Stephen R. McConnell, staff director, Isabelle Claxton, communications director, Kimberly Kasberg, staff assistant, and Pamela Holcomb, staff fellow.

OPENING STATEMENT BY SENATOR JOHN HEINZ

Chairman HEINZ. Ladies and gentlemen, good morning. I want to welcome you all here today as we commemorate one of the most significant moments of American history, the eve of the signing by President Roosevelt of the Social Security Act.

While 50 years ago most Americans struggled with the very concept of "Social Security," today the Social Security System touches almost everyone in this country. It is, in fact, the foundation of our national social policy.

Earlier today, I released a report card* on Social Security where I evaluated the program's performance in several key areas. At the risk of it being accused of being the teacher's pet, I gave top marks, "A" grades, to the program for achieving its original goals of economic security, economic stability, financial soundness, effective administration, and overall public support. Our birthday child got five out of six possible A's so it is a star pupil—except for the last subject on the report card.

When it comes to public confidence, the belief that Social Security will protect future generations of Americans from the "hazards and vicissitudes" of life, the grade is, I am sorry to say, a weak "C."

In a recent survey, one in three respondents said that they were "not too confident" that Social Security benefits would be there when they retired; and half of that number, one out of every six Americans, said that they were not at all confident that Social Security benefits would be paid to them when they retired. Most of these skeptics or anxious people are younger Americans. A large number of them are of the baby-boom generation. I think they can

*See preface p. vii.

be forgiven a good part of their concern about the ability of a system, designed before most of them were born, to handle the strain of a mushrooming older population as we near the 21st century.

As chairman of the U.S. Senate Special Committee on Aging and a former member of the National Commission on Social Security Reform, two of whose most distinguished members will be joining us in a few minutes, I believe that Congress has a very special responsibility to restore public confidence to the level the program deserves. At the same time, I suspect that the Congress can never convince the younger generation of Social Security's durability as long as we continue to hold the program hostage to the annual budget war.

We tend to forget that Social Security is a trust-funded program with its own source of revenues in the form of a payroll tax. Currently it brings in more revenues than it spends or pays out. It is projected to do so each year for the rest of this decade and the next and in ever-increasing surpluses. We expect, indeed, those surpluses in the trust fund to build well into the next century. Until Congress acts to free the program from the political chopping block of our annual budget debates, I believe that the confidence in the Social Security System will continue to suffer the onus of bad press and low public confidence deservedly accorded to the rest of the Federal budget with its crippling deficits and our seeming inability to deal with those deficits.

On August 1, the day that Congress adjourned for recess, I introduced legislation which would remove Social Security, the entire trust fund, old age, survivor's, disability insurance, and health insurance, from the unified Federal budget effective October 1, 1985. I believe that that is the single most important action any of us in Congress can take today to separate Social Security from these annual budget debates and restore public confidence to this otherwise very solid program.

Today, we are going to hear from two panels of witnesses that I think will tell us a lot about the Social Security System. Each will draw upon their own experiences and in their own words share the evaluations of Social Security and its successes in meeting the goals that the founders of it intended.

I am particularly pleased we are having this briefing in my hometown. I am delighted that it is being held at Carnegie-Mellon University. I did not go to Carnegie-Mellon, but I did teach here, and President Dick Cyert must bear heavily the responsibility for having added me to the faculty of the Graduate School of Industrial Administration back in 1981. The students did not mind. They saw me as a soft touch, but I still am indebted to the faculty for putting up with me.

Before I turn to our first panel of distinguished Pittsburghers, who are, indeed, in their own way very different kinds of beneficiaries of the Social Security System, I want to say that the kind of educational effort that Carnegie-Mellon University has underwritten today to help everybody better understand the Social Security System is exactly the kind of effort that will go a long way to insuring that the program continues to have the stability, the flexibility, and the durability that has been its hallmark for the last 50 years and which will be its means of meeting its goals for the next 50 years and beyond.

Let me at this point welcome our distinguished panel of witnesses. They are Mr. William and Sara Anslow of Pittsburgh. Seated next to them, a young man of roughly 22 years of age, Mr. Vito Bochicchio; and then the family of Mrs. Susie Gray, which includes her daughter, Virginia Eldridge, and her grandson, Fred Eldridge, all of Pittsburgh, PA.

I would like Mr. and Mrs. Anslow to please be our first witnesses. Would you please proceed. Mrs. Anslow, do you want to introduce your husband? I understand he is going to speak first.

Mrs. ANSLOW. He just told me I have to speak first, but I think he is supposed to.

Chairman HEINZ. I do not want to be responsible for any marital discord after so many successful years, so I will let you work it out.

Mrs. ANSLOW. OK, he is going to speak first.

Chairman HEINZ. That is not the way it would have worked out in my family.

STATEMENT OF WILLIAM ANSLOW

Mr. ANSLOW. My name is William Anslow, and this is my wife Sara. I have been collecting Social Security since 1972. I retired as purchasing director of Children's Hospital. Before that, I worked 32 years at Crucible Steel, which folded up.

I am very thankful for Social Security, of course. My wife and I could have maybe made it without it, but not very well, and with the small pension that we get and the Social Security, we live very well. If it wasn't for Social Security, it would be a little bit rough. Social Security has given us both independence. When I was growing up and before there was Social Security, my mother and dad had a pretty rough time.

Of course, I think it is important for all you people today because they can possibly save a little bit to take care of themselves, but without Social Security, things get pretty scarce. As the Senator said, some of the young people resent some of the old people living off what they have to donate today, and possibly we felt the same way when it came in; but right now, we realize that without Social Security, we wouldn't live nearly as well as we are.

I think that about sums it up, the way we are situated.

Chairman HEINZ. Thank you. I have just one question for now. If you did not have Social Security, do you think you would really just be scraping by, is that right?

Mr. ANSLOW. Yes; we would. If it wasn't for Social Security, I don't think we would be living in the house we are living in and paying the taxes we have. That's for sure, we wouldn't but we would have to. That's all.

Chairman HEINZ. Thank you very much. I now want to turn to Virginia Eldridge. Mrs. Eldridge, would you introduce your family to us. I had a chance to meet you all earlier, and I might add that you are only part of the Eldridge family. The rest is seated down in the front row, and please feel free to introduce them.

Mrs. ELDRIDGE. To my right is my mother, Susie Gray, and to my left is my son, Fred. My daughter, Denise Eldridge, would you stand, please, and my daughter, Beth, and this is the entire Eldridge family. I forgot to name my sister, Sandra, and my niece, Erin.

Chairman HEINZ. Please proceed.

STATEMENT OF VIRGINIA ELDRIDGE

Mrs. ELDRIDGE. I thank you, Mr. Heinz, to ask me to speak at the 50th anniversary of Social Security. My name is Virginia Eldridge, and I come here today with my mother, Susie Gray, and my son, Fred.

In 1976, my husband died suddenly, and I was left with three children to support. At the time I had no idea that I was entitled to Social Security benefits and didn't know what I was going to do. Social Security turned out to be a real blessing for me and my children.

After my husband's death, I filled out the forms to get the Social Security and then went through a 5-month waiting process. Meanwhile, the bills started piling up, and I ended up going on welfare temporarily just to get by, but I didn't want to stay on welfare. My only hope was to go back to school so that I could find a decent job.

Just when I felt like giving up, in early December the first Social Security check came in the mail. It was just like a merry Christmas. I sat down and wrote a check for all those past due bills. The next year I went through a retraining program and was hired to work part time as a clerk for the Pittsburgh Board of Education. That was in 1978. That money surely helped, but I still could not have gotten by without those monthly Social Security checks. It takes a lot of money to raise three children these days. I gave the children what I could. There was more I would have liked to have done, but I did the best I could, and we managed.

I began working full time in 1979. Now only my son receives Social Security benefits since my two daughters are past the age where they can still receive benefits.

I am very glad that there is also Social Security for my mother because I don't see how I could have provided enough for both my mother and my children at the same time. My sister and I have helped my mother as much as we can, but the money goes just so far. Besides, my mother, she likes her independence, and I respect that. Social Security has been good to us.

I don't think they should keep making changes in the program or that the benefits should be cut. It has been a real help to my family and, I'm sure, many, many others like us.

Chairman HEINZ. I am going to ask Mrs. Gray, who is a youthful 81, if she has anything she would like to say.

Mrs. ELDRIDGE. I am going to read my mother's statement because she is not feeling well today.

STATEMENT OF SUSIE GRAY

Mrs. ELDRIDGE. My name is Susie Gray. I'm 81 years old. I first received Social Security benefits when my husband retired in 1969. Since my husband's death in 1974, I have received survivor's benefits.

I see a lot of my children and grandchildren. I also have a good neighbor, and there is nothing this woman would not do for me. If it came down to the point that I couldn't take care of myself, if push came to shove, I know that my children would take care of me. That's important.

I have lived in the same house since 1927, and I would like to keep living there. I always figured that couples should have time alone to be with each other. I think that as long as I can do it, I'll stay on my own. Social Security gives me enough money so that I can keep living on my own. It covers my day-to-day expenses and lets me manage. There is not enough money left over to cover the emergency expenses, and they do come up, too.

Still, back in the Depression, before Social Security, people didn't have as many choices. It was really tough back then. People didn't retire. They just worked sometimes right up until they died. Until there was Social Security, when you retired, you had nothing to retire for.

Chairman HEINZ. Thank you very much, Mrs. Eldridge and Mrs. Gray, for your statement. Let me return now to Sara Anslow for her statement. Mrs. Anslow?

STATEMENT OF SARA ANSLOW

Mrs. ANSLOW. I, too, am collecting Social Security benefits. I retired 2 years ago when I was 66. I worked for 17 years at the Eye & Ear Hospital, first as secretary and, then, later as a purchasing assistant. I did work when I first got out of high school. That was when I signed up for Social Security, and then I stopped working when my family came along, but I have worked a total of 30 years putting into Social Security.

It has been good. It's been very good for both my husband and myself. I remember when the Social Security was first enacted, there was some real apprehension on my part and everybody else's part just how this program was going to work. We sort of were a little apprehensive at the idea of the Government taking money out of our paychecks every week, month, or however it was to be. But as the years went by, we did find out that the program was managed very well, and we did see that people benefited from it. So that feeling of apprehension was replaced, really, with a feeling of support for Social Security and what it was going to do for all of us.

I am glad that money was taken out a little bit at a time over the years because I don't think that Bill and I would have disciplined ourselves well enough to take out—well, for one reason, being that very often the emergencies that came up were just—you know, you didn't expect them, and it was a little tough taking it out and putting it away. So I think we gained a great deal from Social Security, and it certainly has meant that we are able to live a little bit better than possibly we could have if it was just our putting it aside every week.

It gives us a sense of security to know that there is Social Security benefits that you can use when you do retire, and I am awfully glad that the Government thought of it when they did and we were required to go along with it. It does mean that, I think, we are enjoying our retirement a little bit better than probably we would have otherwise. I just hope that our children, our grandchildren and our great-grandchildren are going to appreciate it as much as we have.

Thank you.

Chairman HEINZ. Mrs. Anslow, thank you very much. Mr. Bochicchio, you are our final panelist. Please proceed.

STATEMENT OF VITO BOCHICCHIO

Mr. BOCHICCHIO. My name is Vito Bochicchio. I am 22 years old and a law student at Duquesne University.

I have a positive attitude toward Social Security. Quite simply, the survivor and dependent child benefits we received after my father's death were a great help to my mother and family. It would have been a hardship getting through school without Social Security. It is too bad that they have curtailed my brother's benefits and for all those who were—when you reach 16, they take away your benefits now. If you are a widow and you have children, they take away the benefits now, and it is too bad that these kinds of benefits aren't available for kids like my brother.

I also have a grandmother who is 83 years old who relies on Social Security as a primary source of income. I think it is great the way Social Security offers dignity to those without usual resources and allows elders a decent way of life.

Perhaps it is because I have seen and felt from personal experience the importance of Social Security, but I am convinced that Social Security is a program worth preserving and that it will be preserved. Not all my friends feel this way. Many don't think it will be around when they get old, and they dislike having to pay the taxes taken out of their paychecks. Sure, no one likes to have money taken out of their paychecks, but, on the other hand, could you imagine how much higher our taxes would be if people retired without paying into this system all along? A minority of people would be paying much more in taxes to support those who retired and only had welfare.

I don't buy my friend's arguments that it would be better if he would take what he paid in Social Security and buy an IRA. If we did that, who would take care of those who didn't pay into Social Security or IRA's? Say you have 10 people; 5 invest in Social Security and IRA's, and then they reach the age of retirement, and then we would have to pay higher taxes later and these people wouldn't have paid into any system at all and we would suffer as a consequence.

I think of Social Security like when you go to a doctor and get a shot. You know the shot is going to hurt, but it will make you better in the long run. Social Security is like that. It's a good hurt. I would rather pay taxes that I know will go to help people than pay higher taxes to cover those who are paying little or nothing in income taxes by taking advantage of all those loopholes.

Social Security brings dignity to people who come from working families and find themselves in need. Without Social Security, what would a 50-year-old woman do to support and raise her children if her husband dies? It is hard enough for young people like me to find a job. It is even worse for people like that.

In a broad sense, I think Social Security is good for the economy, which was one of F.D.R.'s reasons for starting the program. It provides purchasing power for a decent-sized segment of the population. The money which is paid out in Social Security benefits is not being taken out of circulation. It is being spent to pay bills, purchase food, clothing and our services, which, in fact, helps other people in other industries and makes the economy expand.

What would this country have been without Social Security? I think it brought a lot of dignity back to a lot of people. We have an obligation to keep Social Security around. It helps the elderly who have, in fact, helped build this Nation. It helps people like me who have had parents die when we were young. It helps us get an education so we can, in fact, contribute back to our society and become good citizens.

I hope and I pray Social Security will be around, and I hope that the Government officials have sense—have enough common sense—to keep it around.

Thank you very much.

Chairman HEINZ. Mr. Bochicchio, thank you very much for that extraordinary, eloquent, and very carefully composed statement. I commend you for that.

What we have heard from a variety of witnesses today testifies, indeed, to the variety of kinds of help that the Social Security System gives people.

Vito was saying that if you compared Social Security to an IRA, would it or would it not be as good or better? Without getting into the merits of that particular issue, what we have just learned is that whether or not it is a comparison, Social Security can win. It is not the complete comparison that one ought to make because an IRA, investment retirement account, will not take care of your 18-year-old, or younger child. Also, an IRA will not take care of you if you get disabled. An IRA will not pay your medical bills as Medicare does, a part of the Social Security System. Social Security does all of that in addition to being a retirement income safety net.

Mr. and Mrs. Anslow, you are the senior of the people who have spoken today, and you mentioned, both of you, remembering the signing of Social Security. By and large, I imagine your parents or grandparents did not have many benefits from the Social Security System. It only made its first payment in 1940. Do you recall, and if so, can you tell us, what life was like for them? How did they have to live their retirement years, either of you?

Mrs. ANSLOW. Not easily.

Chairman HEINZ. Well, can you be more specific?

Mr. ANSLOW. I can make a statement on that. My mother and dad had to sell their home back in the Depression years, and for the first time they went to live with one of their children, my sister. In fact, when my dad passed away, he was still living with her—then my mother had to change over and live with my other brother.

Chairman HEINZ. So he had no place to live and he had to get by on what you might call family charity.

Mr. ANSLOW. That's right, by living with the children.

Chairman HEINZ. Did he have any savings?

Mr. ANSLOW. Yes; they had a little, but it didn't last too long. They had a little from their house that they sold, but by the same token, that was what they was using up.

Chairman HEINZ. Did they have any income from any other source?

Mr. ANSLOW. Just small pension money.

Chairman HEINZ. Any idea how much that was?

Mr. ANSLOW. No; I really don't know.

Chairman HEINZ. Mrs. Anslow, what about your parents?

Mrs. ANSLOW. Well, I made my home with an aunt. There was no Social Security. Her means of livelihood was renting out rooms, boarders, and that is how she kept herself.

Chairman HEINZ. Other than that, she had no other means of support?

Mrs. ANSLOW. No.

Chairman HEINZ. So in renting out rooms, I assume she also had to take care of all the chores that you have when you are a landlord.

Mrs. ANSLOW. Oh, yes.

Chairman HEINZ. That could be quite time-consuming.

Mrs. ANSLOW. Yes.

Chairman HEINZ. Let me ask Mrs. Eldridge, if you think back to 1978 when you found yourself in a difficult situation, what was your feeling before you found out you were eligible for Social Security?

Mrs. ELDRIDGE. Well, I sat down and I started thinking about welfare, and I thought about going back to school. I didn't want to go on welfare because I just don't particularly care for the welfare system; but since it was an emergency situation, that was my only recourse was to go on welfare.

When I found out that we were eligible for Social Security, a couple days after my husband's funeral, the funeral director came over and told me that I could sign up for Social Security for myself and the children. That is when he took me to the Social Security office where I lived, and that's where we signed up for Social Security.

Chairman HEINZ. When you retire, do you think you will have any other source of income other than Social Security?

Mrs. ELDRIDGE. I work for the Board of Education. I hope to continue to work with the Board of Education, and they do have a pension. We do have a portion taken out for pension when we would retire.

Chairman HEINZ. So you might be able to do that?

Mrs. ELDRIDGE. Might, possibly, yes.

Chairman HEINZ. Now, your mother is with you. Does she have any source of income besides Social Security?

Mrs. ELDRIDGE. No, that is all she has.

Chairman HEINZ. That is it?

Mrs. ELDRIDGE. That's it, nothing.

Chairman HEINZ. Has she ever told you or does she feel up to telling us what life was like for her parents before Social Security? How did they get by?

Mrs. ELDRIDGE. She said her mother passed away when she was 13, and she really doesn't remember.

Chairman HEINZ. You know, Fred, you have been sitting there quitely. When you hear the words "Social Security," what do you think of?

FRED ELDRIDGE. Well, it helps my mother with her daily needs and dealing with the needs, and it makes an income for us.

Chairman HEINZ. Do you think she would be able to have raised you and your sisters without Social Security?

FRED ELDRIDGE. No.

Chairman HEINZ. No, well, I suspect that that is absolutely correct.

Vito, I said earlier that I thought your statement was a very articulate defense of the Social Security System. Is the reason that other members of your generation have some skepticism or the dislike for Social Security just that they don't like that 7.05 percent taken out of their paycheck or are there some other reasons?

Mr. BOCHICCHIO. I think the problem we have with the youth in this country is that our statesmen aren't educating the public on the good that Social Security does. I mean, our society is not educated on what Social Security can do for people and what it has done for people. I think that what you have been doing, like you brought out information that, in fact, a lot more money is coming in than is going out and that it should be a separate system, is a step in the right direction. A lot of people have the misconception that a big chunk of the budget is going to Social Security and the money that could be used elsewhere from the taxes is going to Social Security and that Social Security couldn't stand on its own two feet, and that is just incorrect.

I think that what you are doing as far as trying to get it to be separate from the budget is a good step. I think that, also, some of our fellow Congressmen, they should also be educated on what Social Security is and how it has helped, because I think that sometimes they give information to the public which is incorrect, and Social Security should not be a political fighting tool for Congress because it is supposed to help people. Political aspirations of Congressmen should not hinder our Social Security program.

Chairman HEINZ. Besides separating Social Security both from the annual budget wars and putting it on its own, away from the unified budget, are there any other actions, other than, maybe, more responsible talking by all of us and more continual advocacy by all of us? Is there anything else we should do that you can think of, or is it really just a question of leadership and speaking out and letting people know the facts?

Mr. BOCHICCHIO. I know I have one friend who I continually have arguments with who says, oh, I don't want to pay taxes into that system because it's going to go bankrupt by the time I reach the age of retirement.

I keep saying, well, your facts aren't just right, and he is very intelligent, a college graduate, and he is in law school, also.

Chairman HEINZ. Lawyers always love to get in arguments. If they did not, they would not make any money.

Mr. BOCHICCHIO. But I think if someone that educated has a misunderstanding of the facts, could you imagine other people that just watch the news at night and see people they look at and think that certain statesmen and politicians know all the facts and have them get up in front and say, oh, the Social Security System is in trouble, you know, this and that?

Your fellow public officials have the public responsibility to tell the truth. They have the responsibility to educate the people on what exactly is going on with the program and the positive aspects of Social Security, which you brought up as far as, you know, for disabled. If someone dies, that an IRA would not help those kind of people, and people have to know that.

Social Security is probably, in my opinion, one of the best programs that this country has ever put into effect because it truly helps people, and the reason it was implemented was to help people. At that time there was a lot of skepticism, but it turned out to be a good program.

Like I said before, it provides a large segment of the population with purchasing power which helps the whole economy.

Chairman HEINZ. Thank you. I want to thank all six of you for your comments and facts. You have demonstrated the scope of the Social Security System, what it has meant to you and what, therefore, it means to all of the other 37 million Americans who are not here today. You are a tiny fraction, but you are, nonetheless, very important representatives for those other 37 million. You have been able to give us, particularly you, Mrs. Gray and Mr. and Mrs. Anslow, some insight into what life was like back in what is often referred to as the "good old days" some 50 years ago.

A friend of mine, a Member of Congress, gave me a book about 4 or 5 years ago. It was entitled "The Good Old Days; Boy Weren't They Awful." They weren't so good. Everything that you survived some how seems better in retrospect.

You have described how your aunt, Mrs. Anslow, and, Mr. Anslow, your dad, really had to get by based on, in the case of Mrs. Anslow's aunt, working all the time. In the case of your dad, charity through the rest of the family. We are in a day and age today where people don't live in the same neighborhoods as they grew up in, where their parents are. It is so rare to find a family like the Eldridges and Mrs. Gray and her kids still living all together. The rule is, in fact, the dispersion of the family all over the United States, and we see people having moved to find a job or to get a job. I do not know where Vito is going to end up. I hope he ends up being able to make his home here in Pittsburgh, but we know so many cases of people who have had to leave to look for work elsewhere or believe the grass is greener on the other side.

Family life is not what it was 50 years ago or even 25 years ago, and Social Security fills an enormously important role in our new lifestyles of today.

So I thank you all for your contributions and your help. At this point, you are free to go unless you have any further comments you would like to make. If not, I thank you on behalf of the Committee on Aging.

At this point I would like to have our second panel of experts come up and, then, perhaps if there are any questions from the audience or statements from the audience, we would entertain those. But I would appreciate it very much if Bob Myers and Bob Ball and Wilbur Cohen would come forward and take their places. As they come forward, I am almost tempted to call them the three sisters because this group——

Mr. COHEN. The Holy Trinity.

Chairman HEINZ. The Holy Trinity, said Wilbur. This group represents in one room the single greatest source of knowledge, experience, and wisdom that could ever be assembled any place in the world about not just the U.S. Social Security System, but about Social Security and its counterparts in every other developed nation.

Wilbur Cohen was the first employee of the Social Security System. He has since gone on to other chores. Bob Myers worked for the Social Security System, well, from its inception. I do not think he was the second person hired, but he has worked for the Social Security Administration all the way through until about, what, 1980 or so, Bob?

Mr. MYERS. Until 1970 and then back again in 1981 and 1982.

Chairman HEINZ. Until 1970 and then he came back in 1981 and 1982. So he has spent a good part of what will prove to be his adult life working for the Social Security System. Bob, I don't know what you are going to do when you grow up.

Bob Ball is a former Commissioner of the Social Security System. He, too, has been in and out of the Social Security System and has tremendous association with it. He is also one of the most effective advocates for the system, as those of us who are called to his account are reminded on many occasions.

I must say both Bobs and Wilbur, it is a pleasure to have you all here. Let me just say to Wilbur Cohen, I had the opportunity Wilbur, to see you on the "CBS Morning News." Maybe at some point you will have a chance to finish your rebuttal to the young fellow who alleged that the best solution by far to the Social Security System would be to have a voluntary system where people could choose between IRA's and Social Security, pay benefits that were promised all senior citizens, but forgo the revenues that were part of the Social Security System. According to this young man, everybody could do whatever they wanted and get everything that everybody wanted, and there would be no problem.

I believe in the Easter bunny just as much as that fellow does, too, but I do not expect the Easter bunny to deliver all those eggs.

Let me ask, in fact, because for you to be our leadoff witness I cannot think of anything more appropriate than for the first employee of the Social Security Administration to lead off, Wilbur Cohen.

STATEMENT OF WILBUR J. COHEN, PROFESSOR OF PUBLIC AFFAIRS, UNIVERSITY OF TEXAS, AND FORMER SECRETARY OF HEW

Mr. COHEN. Thank you, Senator Heinz. I am very pleased to be here, Senator, because of your long and distinguished record in the defense of Social Security, both when you were a Member of the House of Representatives and a Senator, and I would say your record in this area puts you in the same class as those great men and women like Senator Wagner, who introduced the bill in 1935, Miss Francis Perkins, the first woman member of the Cabinet who was in charge of designing it, Mr. Altmeyer who was in charge of administering it, and Mr. Witte, the man who wrote the report. I say that as an accolade to you for your brilliant leadership in this field.

Chairman HEINZ. It is the kind of accolade that my father would love and my mother would believe. Thank you very much, Wilbur.

Mr. COHEN. First, let me say, I heartily endorse your recommendation to take Social Security out of the unified budget, and I believe I can say that on behalf of all three of us because we have uniformly fought for that, and we would strongly support your bill and urge its adoption.

In connection with your question, what else can we do, let me make three suggestions. The second one, and I now speak as a former member of the Cabinet and Secretary of HEW, I believe Social Security ought to be taken out of the Department of HEW. It has become too big. It has become too politicized. The service quality in Social Security has deteriorated because the Budget Bureau and others conceive of Social Security as a way of cutting back on the number of offices and the number of personnel.

So, I believe, here again, I can speak for my two other colleagues and myself, we believe that the next step you ought to take is to restore Social Security to be an independent, bipartisan, nonpolitical board, and we support the legislation that is introduced in Congress to accomplish that.

No. 3, I believe the attempt by the present administration to cut back on the number of offices and personnel of Social Security is absolutely unwise and unsound. I believe that there ought to be about 10,000 more Social Security employees to adequately give the American people the service, the knowledge, and the information that they deserve.

Chairman HEINZ. And from some oaks do little acorns spring.

Mr. COHEN. This young lady over here who had to wait 5 months to get her benefits, there is no reason for that. We ought to have a system in place with adequate personnel that could pay her the benefits within 30 days, and that would be my objective on quality assurance of administration.

We are only spending about 1¼ percent of the total contributions collected for the administration of the program. We could easily go up to 1½ percent. We could go up to 1¾ or 2 percent and give the American people better results.

I want to say this. The same survey that you talked about showed that 35 percent of the American people said they were not too well informed about the system. I think that is the basis of all this misunderstanding. They are not well informed. They do not know that there is survivor's insurance. They do not know that there is disability insurance. They do not know that it is a family protection program. They do not know that they get their money's worth.

Mr. Myers and I, when we were both members of a previous commission, set down some 18 misconceptions and myths that some of the American people have about Social Security. More things are believed about Social Security that are untrue than you can shake a stick at, and I believe that we do need a major education program. I believe, therefore, one of the things that I would favor is establishing by legislation an educational unit within what I would now call the Social Security Board. We should have an independent agency, an independent unit, that would disseminate this information about getting your money's worth and all of these things that are untrue, because unless you bring to the young people of the country the true facts about Social Security, the next generation is going to believe these myths and misunderstandings.

Now, second, in this analysis that the AARP mentioned that you did, there is one thing that bothers me a great deal. About 28 percent of the American people and 35 percent of the youth said that the country cannot afford Social Security. Now, I do not believe that for 1 minute. But when 35 percent of the young people and 25 percent of the people between 45 and 61 say that the country cannot afford Social Security, I think we should have an education program in line, because without Social Security, as these people have testified, if we did not have Social Security today, there would be somewhere between 10 and 15 million more people in the United States whose incomes would be below the poverty line. That would mean at least 5 to 10 million more on welfare. Then you would have to pay them out of welfare. So these people, I do not think, understand the problem.

Now, there is another problem that needs more education. In this same poll, 31 percent of the American people that were interviewed, 2,000 people in the sample said Social Security should only be paid to indigent, elderly people. In other words, it ought to be a means-test program.

The whole objective of Social Security has been to pay benefits to people without a stigma, without humiliation, without having to go to welfare, without having to have a test of income; giving them a benefit as a matter of statutory right with a right to appeal to the Federal courts and with an administration that was based on service to the people without an adversarial relationship between the Government and the client.

I would like to keep it that way. But when 31 percent feel that you ought to have a means test, I think we have a vast educational program on our hands that we have got to somehow deal with.

Now, I also believe that we have got to improve the quality of administration of the Social Security Program. In the last 5 years, the administration of the disability program under Social Security, since Mr. Ball, Mr. Myers, and I left, has been a disgrace.

Chairman HEINZ. You fellows should have not taken early retirement.

Mr. BALL. It was not our choice.

Mr. COHEN. It was none of our choices. I do not speak for Bob, but I was involuntarily unemployed on January 20, 1969.

Chairman HEINZ. Well, what can I say? I was not in politics then. That is all I can say.

Mr. COHEN. I was not, either. But, in all honesty, Senator, the Disability Insurance Program, that component so important to younger people who become disabled, has been mangled. I can quote you decisions from circuit courts of appeals. I can quote you district court judges who threatened to put the present Secretary of HEW in contempt of court for failure to carry out the law.

I think that there has been a significant lack of caring, and compassion, and understanding in the present Administration, which leads me to believe that Social Security ought to be a completely independent, nonpolitical, bipartisan organization. Now, there are other things that could be done to improve the Social Security Program, which I think an independent agency could take on itself, but I do think, also, that there have to be certain improvements in the benefits structure.

In the survey, quite a number of people, I think, were critical of Social Security because for some people the benefits are still inadequate. And let me give you one suggestion without trying to write the legislative provision here today. I think a lot of people—well, let's say this, about 95 percent, and closer to 98 percent in the future, of people when they reach 65 will be eligible for Social Security. You might as well say we have practically universal eligibility at 65 now as a result of the many amendments that you sponsored and you helped us get.

People when they are under Social Security do pretty well when they are 65, and 68, and 70, and 72, and 75, and 79. But beginning around the age of 80, when some of them get feeble, get Alzheimer's disease, their Social Security becomes inadequate because they have to take a lot of medicine, and many of them have to go into a nursing home. Here I have to speak from knowledge of my own family. A nursing home today is anywhere between $1,500 and $2,000 a month for minimum care, not including the medicines that they may need.

I believe that, therefore, the most essential feature to be done in the future is to add long-term care to the Social Security Program. You cannot increase the benefit by $10, or $20, or $100 a month to take care of it, but we ought to have a provision in the law to be added to the Medicare provision, that part of the cost, not all of it, but part of the cost of going into long-term care or staying in your own home as certified by a physician and so on would be partially paid for by the Medicare Program, including some of the cost of prescription drugs.

Those are the problems that bear significantly on what I call the older aged. The younger aged, that is, people between 65 and 75, roughly, do a lot better. It is the progressive deterioration, physical and mental, plus the dimunition of financial resources as they get older, as this couple indicated about their parents, that makes people when they get 80, 85, and 90 be the ones that have to go on welfare. We are going to have a lot more people 100 years of age and over in the next 25 to 50 years, and I believe, therefore, Senator, in your responsible position as the chairman of the Senate Special Committee on Aging, the most urgent program development would be to figure out some way—I think we could help you with that—to include long-term care and prescription drugs in the program.

I want to end with one problem that I do not have a perfect solution to. I think that there is a situation, as this young man talked about, in which young people, not all of them, but a lot of young people look upon the money that they are paying into Social Security, quite frankly, as money going down a rathole, and they do not want to pay it. They would rather do something else with it, as was indicated on my program this morning. It is an indication of the problem of the last 2,000 years, and is not only current today, that people only get intelligent about their old age about the age of 45. Something mysteriouly happens around the age of 45.

Chairman HEINZ. I noticed that just last year. I wish I had not.

Mr. COHEN. It is absolutely phenomenal how people around the 45th birthday say, gee whiz, it is about 20 years before I am going to retire. Now, I got to finish paying for my kids in college and I got to pay off the mortgage on my house. How am I going to have an adequate income when I get to be 65? Oh, I only wish I would have saved more when I was 25, when I was 30, when I was 35, when I was 40. Then they become hearty advocates of old age pensions, Social Security. They write their Senator. They write their Congressmen. They write the President. But they forget, then, that they were the ones who were critical when they were 25, and you got sort of an ant-and-grasshopper problem here.

I believe that we have got to show young people that Social Security is a family protection program, that it does provide these benefits to young people when the breadwinner is dying. It does take care of disabled people at 22, at 42, and 62, that it is more than just benefits at age 65. It provides benefits at 60, and at 50, and at 40, and 30, and at 20.

We have cases on the records where a man died and left twins, and they got benefits for 16 years, plus the widow gets it, you know, at age 60, or so, or 62, as the case may be, or the case of 65 if she has been working, and there are hundreds of thousands of dollars of benefits payable to these younger people.

There is no other public or basic program in the United States that gives us the commitment of the same replacement rate for the next 50 years and adjusts your benefits by the COLA as Social Security does. There is no other program of that widespread protection.

Now, I defer to my esteemed colleague, who also came with me in 1934, I may say. We are two of the people who came to work in August, September 1934 to help in the drafting of the law, and you can ask him, as an actuary, whether you get your money's worth under Social Security.

Chairman HEINZ. I am going to——

Mr. COHEN. Most people do not believe that. Most people do not believe that.

Chairman HEINZ. He looks like a trustworthy person to me.

Mr. COHEN. I suggest you read his book, the third edition of his book. The only difficulty I have is it costs $30. You might get it in the library, or he might give you a discount on his book. But in his book, he amply and effectively demonstrates that you do get your money out of Social Security.

Now, Mr. Perry, this morning does not believe that because he has not read Mr. Myers' book; and if he has, he doesn't want to read that section in the book. But I would urge that that section in the book and others be one of the things that the Bureau of Education at the Social Security Board get out. They do a very bad job.

Now, here, I am going to indict myself. I was Secretary of HEW. I didn't do a good enough job, and I would like to go back some day and do a better job.

Chairman HEINZ. We are trying to eliminate the 70-year age cap, so by that time, you can get a suitable opportunity.

Mr. COHEN. I do think we are not using—here, you got three people in the senior citizen group, and we are all three fully at work on this project. I think the Nation is not using the wisdom of senior citizens. I am for taking mandatory retirement off of the whole United States. Let everybody work as long as they can perform and get as much out of our older people. I am also in favor of younger people working harder, too. I think we need more discipline, more responsibility, more hard work, more quality assurance in this country, higher productivity. Then everyone will get their Social Security because the United States will be able to afford it. Thank you.

Chairman HEINZ. Thank you, Wilbur, and I was just about to say that you are either a candidate for Secretary of HHS or elected office.

Mr. COHEN. I am trying to do that for my eldest son, rather than me.

[The prepared statement of Mr. Cohen follows:]

THE PREPARED STATEMENT OF WILBUR J. COHEN

1. INTRODUCTION

Ultimately the objectives and principles of a democratic institution are what the people say they are as expressed through their representatives in Congress in the law itself. Experts will differ on what has governed past decisions about the law and what should govern future decisions. Moreover, social insurance and public assistance (later called Supplemental Security Income, SSI) are evolving institutions. Objectives change in response to changing needs and new insights. Therefore, I offer the principles that follow as ones which simply reflect the best judgment during the past 50 years concerning some of the basic concepts which have governed the development of the program in the United States.

Like most institutions, old-age, survivors and disability insurance and public assistance have developed not only in accordance with predetermined principles and objectives but also to meet a wide variety of practical situations in a large and pluralistic society such as the U.S. Sometimes factors such as cost or administrative considerations have made it advisable in certain specific situations to postpone or modify a broad objective or to provide for some modification of a generally desirable principle. Moreover, where there are differences of opinion on objectives, compromise is an essential part of the legislative process and the provisions of old-age, survivors and disability insurance and public assistance necessarily reflect compromise as well as principle. It is to be expected therefore that the programs have not fully realized their broad purposes, and that there will be some exceptions to the application of the broad principles outlined below.

2. BASIC PURPOSE OF OASDI

Through old-age, survivors and disability insurance the worker and his employer, or the self-employed person provide for a basic measure of protection against the risk of loss of earnings from "retirement" or from death, or long-term disablement. The basic idea is that wage and salary earners (and their employers) and self-employed persons contribute to a fund while employed, and that they or their survivors draw benefits from the fund.

The need for old-age, survivors and disability insurance arises because most individuals are primarily dependent on income from their own current work or are part of a family group which is largely supported by income from the current work of a member or members of a group. When the income from current work is cut off, there is, in almost all cases, either a considerable reduction in the level of living of the family, or a complete or substantial inability on the part of the family to support itself.

An important part of the objective of the program is to protect the interests of the Nation through helping to prevent wide-spread poverty, insecurity, and welfare payments. This objective is promoted by making sure that workers and their employers make prior provision for at least minimum or basic protection against the risk of old age and death. In this way, too, the burden on general taxation of supporting persons who are in need is reduced.

The economic security of everyone in the nation depends first on the success of industry and agriculture in production in sufficient volume of goods and services. However, if insecurity is to be prevented it is necessary as well to make sure that individuals will have a continuing income during periods when they are not earning. Old-age, survivors and disability insurance is one of several programs directed to the income maintenance of retired persons and dependent survivors. It is not intended to do the whole job but is intended rather to serve as a foundation on which the individual can build toward greater security. Numerous retirement, disability, group life insurance and deferred profit sharing plans in private industry and nonprofit employment build on the benefits of old-age, survivors and disability insurance and provide additional amounts. Large numbers of individuals provide substantial additional protection for themselves through individual savings and insurance. Public assistance is available for those whose needs are not met in other ways.

3. UNDERLYING PRINCIPLES OF OLD-AGE SURVIVORS AND DISABILITY INSURANCE

The following principles have been the most important in development of the old-age, survivors and disability insurance program:

1. The plan should be applied to all who earn, a principle requiring that insofar as feasible the coverage should be compulsory and without exemptions based on wage or salary levels, occupation or industry, age or existence of a private plan.
2. Benefits should serve as a basic floor of protection to which individuals can add savings and other resources; there should be no tests of individual need or resources.
3. The individual should contribute directly toward his own protection and that of his family, and in the long run a covered worker should bear a reasonable part of the cost of this protection.
4. There should be a legally enforceable statutory right to the benefits with the amount of benefit and conditions of eligibility defined precisely in the law; individuals should have a right to a fair administrative hearing and judicial review.
5. The benefits paid should be designed to replace in part earnings lost as a result of old age, death, and long-term disability; eligibility for benefits and the amount of benefits should be related substantially to past earnings with appropriate minimum and maximum amounts. A test of "retirement" at an appropriate age is a reasonable requirement. Similarly paying an annuity at an appropriate age is a reasonable provision.
6. Low-wage earners and those with dependents (who have presumptively more need) should receive greater protection in relation to earnings than is received by other workers.
7. In order to make the program effective in the early years of operation, workers already old at the time coverage is extended to their occupational group should be given full or nearly full-rate benefits although they contribute for a relatively short period.
8. There should be no eligibility requirements related to citizenship, residence, personal characteristics, or individual behavior.
9. Because of the increasing future costs of the program, there should be a long-range plan for financing designed to provide sufficient funds to meet benefit costs as they fall due; a contingency reserve fund should always be available.
10. The program should be subject to periodic independent review.
11. There should be a comprehensive program of research on the operation of the program alternatives, options, cost, administration and foreign programs. This information should be available to the public.
12. A program of widespread public information should be available to contributors, beneficiaries, and the press so that individuals are aware of the rights and responsibilities.
13. The income and expenditures from earmarked contributions should not be part of the Federal Unified Budget. Any payments to the plan from Federal general revenue should be included in the Federal Unified Budget.
14. The program should be administered by an independent agency of the Federal Government, with bi-partisan representation, and with the objective of non-political administration, the use of participatory advisory councils, and dedication to high quality service.
15. The basic legislation should contain a bill of rights and responsibilities which the agency should administer.

16. The Congress should exercise continued oversight on the program and publish its recommendations and conclusions.

SOCIAL SECURITY IS HERE TO STAY

The Social Security program on its 50th birthday today is well and financially sound. There are 37 million persons currently drawing their benefits each month. The program has paid the benefits due every month for 44 years and eight months and will continue to pay the benefits due next month, next year, and, in my opinion, indefinitely. A long-range financing plan adopted in 1983 provides a sound basis for the belief that the benefits will be paid to those retiring, becoming disabled or dying during every month for another 44 years.

Moreover, the program is administered very efficiently. The administrative cost of the program is only 1¼ percent of the contributions paid by employers, employees and the self-employed. And all of the assets of the system are safely invested in U.S. Government bonds. Where else can you get such a combination?

The 125 million individuals who are currently contributing to the program get their money's worth. Like any group pension and insurance plan, all individuals who pay into the program and become eligible under the provisions in the law will receive payment of benefits from one of the trust funds. Some people will get back more than they paid in; others who do not experience the specific risks insured against may get less or nothing at all. Just as in the case of fire insurance on one's home, if your house does not burn down, no benefit is paid. If an individual does not live to retirement, and leaves no dependents, no benefit will be payable. If an individual does not become disabled, no disability benefit is paid. But the individual who lives to one hundred years of age (as some do!) will get back many times what he or she paid in. Individuals who become disabled at 35 will get back many times what they paid in. The widow with the dependent children of the man who dies at age 30 probably receive over $200,000 in the future.

Most people think that only old age retirement is covered by social security. This is a serious misunderstanding. Social Security also pays monthly life insurance to young widows (and widowers) and to dependent children, and monthly disability insurance benefits to persons in midlife (between age 20 and 65) and to their families. In addition, it pays Medicare hospital insurance benefits not only to the aged but to younger people who have serious disabilities.

There are beneficiaries receiving Social Security from the time of birth to other individuals who receive it when over one hundred years of age. It extends to the entire life-span from birth to death for various people. It is not simply an old age program. It is a family program.

Moreover, Social Security provides benefits which are inflation-proof in two major ways which most private plans cannot match. The first is that as wages and salaries increase, the individual is provided benefits with the same replacement proportion of wages as time passes. In other words, an individual who is entitled to a benefit of 50% of his future wages will be entitled to 50% of his future wages as his salary rises as general wages rise in the future.

In addition, when an individual becomes a beneficiary—as a young disabled person or as a widow, a mentally retarded child or adult, or as a retired person, his benefit will be increased annually by the increase in the cost of living (COLA). Very few private plans have this built-in advantage.

Therefore, it is possible to say that individuals under the social security program for old age, survivors, disability insurance and Medicare receive their money's worth in *protection,* just as each of us receive our money's worth from fire insurance protection on our home irrespective of whether we experience a catastrophe. Protection is the key to value; not the exact equivalence between money paid in and benefits recieved.

Social Security is a group insurance plan. It is not a savings bank plan. It has no salesmen and it requires no medical examination. It covers the rich and the poor, the black, white, and the Hispanic. It not only protects the individual; it protects the nation against the possibility of vast increases in the welfare rolls. If Social Security didn't exist, some 10 to 15 million additional persons would have incomes below the poverty line, and many more persons would be on the welfare rolls.

Many experts, who proclaim that individuals can get a better deal by taking their contribution and investing it privately, overlook the life insurance and disability protection to young persons and the Medicare protection in the program to disabled persons of any age. They also assume that interest rates will continue indefinitely at high levels such as 10% or 8%. The fact of the matter is that these high interest rates are not borne out by long-range historical experience. Over 30 or 40 years, a 2% or 3% rate is more realistic.

Social Security is sound and here to stay. It is a social compact with the people. It is a solemn commitment by the Congress. I predict that the young people today will receive their Social Security thirty and forty years from now. Congress, in my opinion, will not repudiate a sound program involving every taxpayer. There are over 200 million persons with developing rights under the program. There will be over 50 million persons drawing monthly benefits in the future. I feel sure Americans will be joyously celebrating Social Security's 100th birthday 50 years from now in the year 2035. I have faith in Congress as long as citizens have the right to vote every two and four years for our representatives. I do not expect the United States to go out of business.

Chairman HEINZ. I have a couple quick questions before we move on to Bob Ball. Now, you mentioned the closing of Social Security offices. Earlier today at a press conference that I had, I was asked about the closing or the threatened closing of the Hill District Social Security office here in Pittsburgh, which I had been opposed to and working to prevent. But it is not the only office that is targeted with closing. I have a large list of offices throughout the State that are so targeted.

This is a question that any of the three of you can respond to. Let's assume for the sake of argument, just think of this as a hypothetical question—it is not, but think of it hypothetically. Free yourselves from any inhibitions at all and think that you are a U.S. Senator. You have, strictly hypothetically, a situation where the person who is in charge of the Social Security Administration is looking for a promotion and, really, is trying to curry favor with the Office of Management and Budget. This person is not making decisions that are really in the best interest of the system or, as I would define them, very rational decisions. They are based on in a sense obvious and in a sense unobservable self-promotional reasons. This is all hypothetical, you understand.

As a U.S. Senator, how would you get the attention in a lasting way of, say, a hypothetically acting Commissioner of Social Security who does not, in fact, consult with Members of Congress, Bob Ball?

Mr. BALL. I have had my attention called to matters in the past when I was Commissioner, and I think one of the best ways is a hearing.

Chairman HEINZ. I already intended that. Beyond a hearing, suppose—and this is also hypothetical—that this particular individual performs with the same clarity that they did during the discussion of the disability review process. Maybe you read the hypothetical transcript to that hearing. But when one is faced with what can best be described as abject equivocation at the conclusion of one's hearing, then what is the next step? Let me ask Bob and then Wilbur. I mean, should we simply start reducing the number of Assistant Commissioners?

Mr. BALL. No; I think beyond a hearing, Senator, in all seriousness, there is, as you know very well, a process of a continuing investigation, an oversight activity that can go on for a long while. I remember in the Ways and Means Committee in the late 1950's, there was great concern about the disability program, and there was an investigative subcommittee of Ways and Means set up that held many hearings, and they visited Social Security offices, and they visited headquarters, and they published reports. It was an educational process for them and for the administration.

So it can go on much longer than a hearing. I personally feel that direct punitive measures against the agency, such as the reduction of staff or retaliation in the appropriation process, can be counterproductive to what you are trying to accomplish.

Chairman HEINZ. Wilbur, do you have any advice?

Mr. COHEN. I have had two experiences in my 30 years' work in the Federal Government that lead me to make a suggestion. One occurred by an action of Senator Russell and one occurred by action of Senator Glass. They got very prompt response. They put in the appropriation bill a cut in the salary of the Commissioner and the Secretary. In other words, they got the Commissioner and the Secretary to come up to see them. When that bill passed the Senate, the Secretary and the Commissioner came. It happened to be the Commissioner of the Food and Drug in this case came to see them.

Chairman HEINZ. If you have seen one Commissioner, you have seen them all.

Mr. COHEN. I would only add one thing. I would cut the salary of the Director of OMB because the instructions for this cut did not come from the Commissioners. It came from Mr. Stockman's office.

Chairman HEINZ. I think we are all well aware of that.

Mr. COHEN. Therefore, what I would do is I would amend the budget resolution or appropriation act and cut the salary of these three people, and I would predict that if you introduced such a bill, you would get a telephone call the next morning saying, Senator, can we come and see you, and then you can put your proposition before them and they might be a little more interested in solving the problem.

Chairman HEINZ. Bob Ball, you counseled a moment ago against retaliatory measures. Is this too retaliatory?

Mr. BALL. Well, I think that is fairly limited. That is kind of a surgical strike in that move.

Mr. COHEN. I can tell you if you cut his salary, he would have been up there that evening.

Mr. BALL. Why would you suggest a thing like that here?

Mr. COHEN. Because I know he would act on it.

Chairman HEINZ. I want you to understand this is not totally what this hearing is supposed to be about. But, quite seriously, if people are going to go around irrationally curtailing legitimate public service and the ability of the Social Security System to service its clientele, which, after all, is 37 million Americans, then it, indeed, is an issue that needs to be taken seriously by the Congress, particularly if the executive branch is not going to take it seriously.

So while my questions may have sounded as if they were impartial, indeed, they would then be serious, and I appreciate your counseling advice.

Mr. BALL. Senator, could I make just one more point?

Chairman HEINZ. As a matter of fact, I was going to let you proceed with your testimony.

Mr. BALL. Just before that, could I make another point on this?

Chairman HEINZ. I recognize Robert Ball.

Mr. BALL. And that is if the administration, maybe not just the Social Security Administration, the whole administration, was talking about improving service in Social Security, and in the course deciding, now, here is an office that should be closed, here is another one that should be opened, and, in general, improving the service, I do not have any quarrel with the notion of occasionally closing an office. That is a matter of constant evaluation, and I would not want anybody to feel that I thought that every time you open an office, it had to stay open forever. There are times that you should move on, and my own view is that, like Wilbur's, there probably needs to be more small offices in Social Security, more easily available to the people. We had started on that very much in the 1970's. I gather that there is now a reversal in the direction.

Mr. COHEN. One more point, too, Senator. That is the reason for more offices and their dispersal. If you call Social Security on Monday morning, as most people do, the telephone lines are jammed.

Chairman HEINZ. Have you tried the Internal Revenue Service? Anybody who owes you money is hard to get through to.

Mr. COHEN. But my point, Senator, is we do need to get a better quality of service. We need more dispersal of offices. Of course, there have to be some large offices in big metropolitan areas, but I would be for more dispersal. It would probably cost a little bit more, but that is why I said we need to spend a little bit more on service to people.

The point is the administrative costs of Social Security are paid by the employees and employer. It is not a charge to general revenue. Every penny for administration of Social Security comes out of the contributions to the system. It is not a drape.

Therefore, the people are entitled to the highest quality of service. I am for more offices, more diffusion, better telephone service, more help to people. I think that means more money, but I think that is what we ought to do, as Bob Ball said.

Chairman HEINZ. Very well, thank you, Wilbur. Bob, I now recognize you as our next witness, Bob Ball, and then Bob Myers.

STATEMENT OF ROBERT M. BALL, WASHINGTON, DC, FORMER COMMISSIONER OF SOCIAL SECURITY

Mr. BALL. Thank you, Senator. I am not used to being on panels or following panels where I find it difficult to find a basis for disagreement, and, therefore, easy comment. But your splendid earlier panel seemed to do an extraordinarily good job in saying what it is we should be celebrating on this 50th anniversary.

Usually, I can find something to disagree with Wilbur about, but this morning I endorse everything I heard him say, if I understood it.

Chairman HEINZ. May I say that you have submitted a statement here for the record, as has Bob Myers. Wilbur, as is his custom, spoke extemporaneously.

Mr. COHEN. I did submit a statement.

Chairman HEINZ. Yes; you did, and all three of your statements will be a part of the record. So please proceed, Bob.

Mr. BALL. Senator, I would like to reemphasize one point that Wilbur made, and then I will try to talk to different issues that the ones that he brought up, but I cannot very well begin this statement without paying deep respect to you, Senator, for your role in Social Security and the splendid role you played in the National Commission on Social Security Reform. You were one of the real stalwarts in reaching what I think turned out to be a good solution to our problem, and that is something the country ought to know.

Chairman HEINZ. Thank you, Bob.

Mr. BALL. There is a tendency for many people to think of Social Security as a program for today's elderly and to lose track of the fact that what we have been building, and will be building, is a permanent institution for today's young. I am speaking not simply to the fact that it covers survivor's benefits and covers total disability, but no one stays young. Social Security retirement protection is for the generations that follow as well as today's generation.

People are paying today for their own security in the future as well as for the security of their parents now. The notion that there is a conflict somehow between the generations in Social Security seems to me to rest on a false one-time analysis of those paying in versus those taking out, when what happens in this permanent institution is that those who pay currently will be those drawing out later. Simple as this sounds, it is at the bottom of a great deal of controversy that still surrounds the program, at least among a minority of people.

I would like to stress, too, that important as Social Security has been in reducing the incidence of poverty among the elderly—it is our most important antipoverty program, keeping, I would guess, somewhere between 12 and 13 million people out of poverty—it is by no means only an antipoverty program. In fact, it may not be its most important function. Social Security is the basis on which just about everyone in America builds their own security. Every private pension plan in the country is built on the idea that the pensioner will also received a Social Security benefit.

The worth of the system does not stand or fall on the extent to which a few people, or millions of people, are raised a few dollars above poverty or remain a few dollars below. It is the essential base to which private pensions are added, to which private savings are added, and I would just like to remind people that what we have here is the most important part of a four-tier system of retirement income. In addition to Social Security, that is just about universal now, you have private pensions which cover roughly half of the people with jobs, and, ultimately, about half will be getting supplementary private pensions, and individual voluntary savings, and then underlying the whole, the means-test system of supplemental security income [551]. I think this four-tier system is working well. It is not competitive, basically. It is competitive only at the edges. Some people want to do a little bit more with Social Security or a little less with private pension or vice versa; but, basically, they are complementary. It is important that people realize that the structure of Social Security fits in with the other systems.

Social Security has a weighted benefit which pays more in relation to what people contribute to those with relatively low wages. That is just the group that is least likely to have private pension supplementation. As you go up the wage scale, the portion of past earnings that Social Security pays drops, but those people who earn average and above average earnings are more likely to have private pensions and are more likely to be able to save on their own.

Underlying the whole retirement income system is the rock bottom layer of means-tested benefits. It does not have to pay very many people. About 7 percent of the elderly are eligible for SSI now, but it will always need to be there for some. There is a temptation that has existed throughout the history of Social Security—and it is still very prevalent—to take what is a very transforming, powerful idea, social insurance—insurance against the loss of earned income—and try to make it do things that it was not really well-designed to do—try to make it do more than it should. For example, social security has been so successful that there are always people around who say, can't we change Social Security so it gets rid of poverty among the elderly altogether? Well, I do not think you can do that without undermining very important principles of Social Security.

If you go so far as to pay everyone a large minimum benefit, enough to remove them from poverty, greatly weaken the contributory and wage-related nature of the system, which has been a major source of its strength. So we have to look for other programs to solve certain social problems. You cannot have Social Security paid at the end of life solve the problem of wages that are too low and irregular and keep it as an income-insurance program: If you try to give everyone a benefit that is way beyond what some wages have been—because the wages were high enough—you find that you have distorted the system so that you lose the loyalty and support of regular contributing wage earners.

So I would urge that people make a clear distinction between the functions of social insurance, which has worked very well, and the functions of supplementary plans, like private pensions and savings and the welfare programs, the supplementary security income program, for example. I would urge that the supplemental security income benefit levels be raised, but I wouldn't try to solve the whole problem of poverty through the contributory social insurance system.

I would like to leave with you, Senator, and with the audience the main conclusion that I have, and that is, as far as cash benefits are concerned, Social Security is doing very well. I think it needs, mainly a rest from change. I do not think that this is the time to be thinking of how to modify the system. I think what we need to do is support and defend the present principles of that program, and they are not well understood, as Wilbur suggests.

I doubt if there is even a majority in this audience who are fully aware that the benefits that you get under Social Security will be kept up to date with rising wages all during your working life and, therefore, with productivity; that over the 75-year period for which the estimates are made, real benefits—not nominal dollars, but real benefits—are estimated to be about three times higher 75 years from now than they are today because all productivity increases automatically increase Social Security benefits.

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I just don't think the country realizes, we have an automatic system that will be paying in 2020 the same proportion of recent earnings as is true for people retiring now. It is quite well understood that once on the rolls, Social Security will be kept up to date with purchasing power, but I think the fundamental idea of keeping benefits up to date with productivity improvements and wages and, therefore, the level of living in the community is not well understood.

So I would argue that the next steps to take in Social Security, broadly defined, are not significantly in the Old-Age, Survivors and Disability [OASDI] Program, certainly not at this time. I have some suggestions, and I fully support the idea of taking it out of the budget and establishing and independent agency. I think your bill on this is very important and should be a focus of major effort, but on program substance I would look, rather, to improvements in Medicare as the next step in Social Security, particularly the addition of Wilbur's suggestion of long-term-care insurance to Medicare. I will give OASDI a rest.

I believe that a lot of the uneasiness about Social Security on the part of younger people was caused not only by the stories of financial problems in 1981 and 1982, but are caused again year after year as people look at Social Security all over again and say, it's possible to change it here, it's possible to change it there, and not treat it as the 30-, 40-year agreement that it is between the Government and contributing workers.

Sure, it will be changed. It will be changed at the margins, but it is unsettling to continually raise the issue of whether Social Security ought to be radically changed in this direction or radically changed in the other. I think one of our most important findings on the National Commission was to say, as we did on our very first recommendation, that the modifications in Social Security did not need to be fundamental, did not need to be radical, and that what we needed was a continuation of support for a compulsory system that is contributory, that is universal, which is wage-related and sticks to the principles of an income insurance program as part of this four-tier system that I have been talking about.

In conclusion, I would urge the continuation of the present financing arrangements that are in the system, at least well into the next decade. It seems to me that the best way to restore confidence in this system is as people begin to see the buildup in the trust fund. Their confidence was destroyed—as why shouldn't it be—by people saying, well, 6 months from now there are not going to be any funds. If you say that, people who have to look 40 years ahead, certainly, do not think there are going to be any funds there when they retire. So it is going to be the increase of funds—an excess of income over outgo—that is going to make a big difference, and I just hope that nobody starts fussing around with that 1988 contribution rate increase which will begin a very large buildup in the funds. Later on, we can argue about how big the funds should be, but let's proceed with the present financing arrangements and get those funds back to a very sizable amount. I think that will do more to restore confidence than anything else. Thank you.

[The prepared statement of Mr. Ball follows:]

THE PREPARED STATEMENT OF ROBERT M. BALL

Mr. Chairman and Members of the Committee: My name is Robert Ball. From April 1962 until March 1973 I was Commissioner of Social Security, serving under Presidents Kennedy, Johnson and Nixon. Prior to becoming Commissioner I served for approximately 20 years in various positions in the Social Security Administration and its predecessor organization, the Social Security Board, and for the ten years prior to becoming Commissioner I was the top civil servant engaged in the administration of social security. Since leaving the government I have continued my deep interest in social security and Medicare and other programs affecting the welfare of the elderly. I was one of Speaker O'Neill's appointees to the National Commission on Social Security Reform which led to the Social Security Amendments of 1983.

I am appearing today entirely on my own behalf, and the views presented in my testimony do not necessarily accord with those of any of the organizations with which I am associated.

INTRODUCTION

In the last 50 years, the United States has made great progress toward the goal of adequate retirement income for all. This year as we celebrate the fiftieth anniversary of the passage of the Social Security Act and the twentieth anniversary of the passage of the Medicare program, it is fitting to pause and note that progress. We are celebrating one of the major achievements of the century. When the social security program was enacted only about six million persons, 15 percent of those employed, held jobs covered by any sort of retirement system; only a tiny handful—perhaps 100,000 or 200,000—actually were receiving a pension. The poorhouse toward the end of life—with all its horrors—was a very real part of America.

Social Security changed all that. It created a peaceful revolution in the way older people, totally disabled people and widows and orphans live. It has been largely responsible for the fact that the proportion of those over 65 who are desperately poor is now about the same as for the rest of the population, instead of more than twice as high as it was as recently as 1959. Without social security, more than half the elderly would have incomes below the Federal government's rock-bottom definition of poverty. Instead, about 14 percent are in that category today.

But old-age, survivors and disability insurance (OASDI), what most people mean by social security, is much more than an anti-poverty program. Currently 122 million individuals contribute to the program; it is the base on which practically every family builds protection against the loss of earned income. One of the most important characteristics of the system—the absence of a means test—enables people to add private pension income and personal savings to social security benefits. Every private pension is planned on the assumption that the pensioner will also receive social security, and individuals who save on their own rely on social security as a base for their efforts. Today 36 million people—elderly retired people, totally disabled people, widows, motherless and fatherless children—get social security benefits every month.

The United States enters a period of great social change some 25 years from now when the long-range trend of an increasing number and proportion of the elderly in the population takes a dramatic leap upward. We have developed good income support systems for older people which should serve the country well when that period arrives. Some changes are desirable, but progress in the last 50 years has been phenomenal, and we have good arrangements in place.

Social Security is the base for these arrangements, it is the first tier of a four-tier system. In addition, there is tier (2) private and public occupational pension programs, (3) income from assets and savings, and (4) needs-tested programs of last resort, primarily the Federal Supplemental Security Income (SSI) program.

And beyond the provisions for cash income in retirement, people need protection against the unpredictable costs of expensive illness and physical and mental dependency. This health insurance is supplied principally by the Federal Medicare program which provides protection against most of the cost of hospitalization and some protection against the cost of physicians' fees. Private supplementary insurance, Medigap, performs the limited functions of filling in Medicare deductibles and copayments and providing extra days in the hospital for those older people who can afford it. Medicaid, the welfare program financed by the Federal and state governments, with the amount of protection largely determined by the states which administer the program, is our only important collective method of meeting the long-term nursing home costs for the physically and mentally dependent elderly. Medicare and private insurance provide almost no protection against the cost of this care

(Medicare less than 3 percent, private insurance less than 1 percent). About half the total costs are paid for by the individual or relatives and half by Medicaid. Medicaid also supplements Medicare for those who have little in the way of assets or income by filling in copayments and deductibles and paying for some services (such as prescription drugs) not covered under the Medicare program.

Other programs based on a test of need, such as food stamps and housing subsidies, are available to some older persons as are a variety of Federal-subsidized social services. The longstanding practice of encouraging home buying through Federal tax policy has also resulted in widespread home ownership among the elderly, by far their largest form of savings.

All of these programs combined represent our approach to the economic security of older people. But there is still another aspect to the question of retirement policy: To what extent can and should people continue employment into the later years?

In my testimony I will confine myself largely to our four-tier system of providing continuing income to retired people, with some comments on the question of employment. Health insurance and protection against the cost of long-term care, both the costs of medical services and social services, while an essential part of economic security in retirement can certainly be separated for analytical purposes from the major concerns of this hearing.

THE FOUR-TIER SYSTEM

The four tiers in our retirement income system are all promoted by deliberated government policy. Social security and SSI are, of course, explicit government benefits, but private pensions, home ownership in retirement and individual saving for retirement have all been encouraged by favorable tax policy. By and large, the four tiers are complementary and not in competition, although there will always be differences of opinion, at the margin, over how much should be done by social security, how much by occupational pensions, how much by individual savings, and how much by means-tested programs. Social security has traditionally provided the bulk of retirement income for most earners, with augmentation from private pensions and individual savings more likely at upper earnings levels. Needs-tested programs have provided a backstop for people who over their lifetimes had very low or sporadic earnings or are dependent on earnings who did.

Tier 1: Social Security

Just about all earners are covered under tier 1, our contributory, compulsory, wage-related system of social security. The major exceptions are the 30 percent of state and local employees, about four million persons, who have not been covered under the voluntary provisions of present law, and current Federal civilian employers. Federal employees in the future will gradually be brought under social security since new employees will be covered as a result of the 1983 Amendments. About 90 percent of persons over 65 are getting benefits, and another 5 percent will be eligible for benefits when they retire.

Prior to the time social security benefits are payable they are automatically kept up to date with wages and thus with any increases in the general level of living. Since the benefit formula in present law gives earners credit for all the productivity gains during their working lives, real benefits per person are estimated to triple over the next 75 years for which social security estimates are made. Thus, the ratio of benefits to recent earnings (replacement rates) will be the same for workers retiring in the future as for those retiring today. Once benefits are payable, they are inflation-proof.

Social security recognizes that income security in old age is not only a matter of benefits for retired workers, but equally a matter of protection for elderly widows. Twenty-two million retired workers are receiving benefits, but so, too, are 4.8 million elderly widows and widowers. This protection for widows is a matter of great importance. As of July 1985, it is estimated that of the 29.3 million persons over 65 living in the geographical area covered by social security, 11.7 million were male and 17.6 million female. Nine million of the males were married and 6.9 million of the females. Only 2.7 million males were single, widowed or divorced, compared to 10.8 million females. Nine million out of the 10.8 million females were widows.[1]

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[1] Social Security Area Population Projections, 1984. Actuarial Study No. 92. Social Security Administration Publication No. 11-11539. Table 20a. These figures differ from Census figures because they are adjusted for Census undercounts and include Puerto Rico, Guam, Amercian Samoa, the Virgin Islands and U.S. citizens living abroad.

Social security payments are modest. In March of 1985, the average retired worker's benefit was $462, for a spouse $237 and for an elderly widow $417. The maximum amount payable to a couple when the worker retired at 65 the end of 1984 was about $1,100.

Two-thirds of the over-65 social security beneficiaries today get more than half their total income from social security and over a fourth get over 90 percent.

Following the 1983 Amendments, old-age, survivors and disability insurance (OASDI)—what most people mean by social security—is adequately financed both for the short and long term. It is expected to take in more than it pays out for decades. In the next five years, 1986–90, the OASDI trust funds are estimated to grow by $146 billion. If the hospital insurance fund is added, the total increase in funds for five years is nearly $200 billion and through 1994 approximately $500 billion. The annual increases are expected to be much larger in the latter part of the 1990's and well into the next century.

Tier 2: Occupational Pensions

Private pensions are encouraged by the tax code. Employees do not have to pay taxes on employer contributions to approved plans, and interest earnings on accumulated funds are protected against taxation. Benefits above any contributions which the employee may have made are taxable in retirement, but at that time the employee's marginal tax rate is usually lower.[2] Because of this favorable tax treatment, that part of worker's compensation paid by employers as contributions to pension plans is worth more than wages to the worker, and because this part of compensation is not included in the social security benefit and tax base, employers also gain by electing to pay into pension plans rather than give increased compensation in the form of wages.

Private pensions are now an important supplement to social security for many—usually workers who have earned above-average wages—and more will have this additional protection in the future.

The situation of new social security beneficiaries gives us some idea of the future importance of these supplemental pensions. Of the new beneficiaries who retired in the two years prior to 1982, about 56 percent of the married couples and 42 percent of the unmarried had either a private pension or career government pension, such as a state or local pension, a Federal civil service pension, or a military pension. (Thirty-eight percent of the couples, 27 percent of unmarrieds had private pensions; 21 percent of the couples and 17 percent of the unmarrieds had government career pensions.) For the 56 percent of the couples who had supplementary pensions, the median monthly amount was $940. The overall median pension income for the unmarrieds was $291, $400 for the men, $253 for the women.[3]

The proportion of new beneficiaries with occupational pensions is somewhat higher than for all current beneficiaries, although not dramatically so—56 percent compared to 49 percent. This is encouraging. Yet, in considering the role of supplementary pensions in meeting future income needs, it is important to remember that for the very old, whose needs are perhaps the greatest when health status is taken into account, these supplementary pensions will not be as useful as they may seem at first. Only the Federal systems have full protection against inflation, and only some of the state and local plans have limited protection. Most private plans make adjustments for inflation only on an ad hoc basis, if at all, and the supplementary pension can lose much of its value by the time the retired person reaches advanced old age. Even with the continuation of the present "low" level of 4 percent inflation, an unindexed pension loses about half its value between ages 65 and 83. Moreover, private plans have not been very helpful to widows, although protection for them should improve, since the plans under ERISA are now required to provide a survivor annuity unless both husband and wife reject the option.

Tier 3: Individual Voluntary Savings

The third tier of our four-tier system is individual voluntary saving. Home ownership, encouraged by tax deductions for mortgage interest, is by far the major form

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[2] The tax treatment of social security is even more favorable. If taxation of social security benefits followed the same rules as taxation of private pensions and government career pensions, about 85 percent of the benefit would be taxable, not 50 percent as under present law. If taxation of social security benefits above the present income threshold ($25,000 for single persons, $32,000 for couples) were changed to follow private pension rules and the income dedicated to social security, the OASDI would gain about one-half of a percent of payroll.

[3] "Distribution of Income Sources of Recent Retirees: Findings from the New Beneficiary Survey," Linda Drazza Maxfield and Virginia P. Reno, Social Security Bulletin, January 1985.

of accumulated saving for the elderly. Seventy-five percent of the homes maintained by an elderly person are owner-occupied, and about half are owned free and clear. Income from other savings is not large for most elderly people. Looking again at the new beneficiary group, only 51 percent of the couples and 35 percent of the unmarrieds had over $100 a month in such income.

The distribution of asset income is very uneven. Couples in the top 5 percent of the asset-income distribution receive more than $2,000 a month, the unmarrieds over $1,100 a month. Couples in the lowest 25 percent of the asset-income distribution receive less than $35 a month, unmarrieds less than $18 a month.[4] The recent changes in the tax code which allow any earner to shelter up to $2,000 a year in individual retirement accounts (IRA's) are unlikely to affect this distribution very much. Average and lower-paid earners do not have the extra income to take full advantage of IRA's, and, moreover, the incentive is much greater for the higher-paid. A $2,000 IRA deduction is worth $1,000 for a person in the 50 percent bracket but only $300 to a person in the 15 percent bracket. Treasury data show that over a fourth of those with $20,000 to $50,000 incomes and considerably over half of those with $50,000 or more have opened IRA accounts, while only 5 percent with incomes below $20,000 have done so. Asset income is not likely to be of great importance to most elderly people in the future, although home ownership will be.

Tier 4: Supplemental Security Income

Underlying these three tiers is our nationwide, means-tested system of SSI, the last resort program under which all elderly with very low assets can have their incomes brought up to a Federally established minimum which rises automatically with increases in prices. This minimum is now 89 percent of the poverty level for couples (an estimated $6,550 in 1985), 75 percent for unmarrieds (an estimated poverty level of $5,194), but for social security recipients with supplement SSI, comparable figures are 93 percent and 80 percent because part of the social security benefit is not counted in stamps, the couples with social security benefits get 101 percent of the poverty standard, the unmarrieds, 86 percent.[5] [6]

All but eight states supply some state-financed supplementation, although of those who do, 16 do so only for those living in institutions. Among the 26 states who do provide supplementation for those living independently, there is considerable variation in amount. The maximum amounts payable under the combined Federal and state SSI programs and the food stamp program for individuals with no other income varies from $4,536 a year in Oregon to $7,680 in Alaska. California pays $6,048, New York $5,026 and Maine, as a representative of the smaller states, $4,608. In the states where there is no supplementation for those who live independently, the combined SSI and food-stamp payment is a maximum of $4,524 a year. For couples, the amounts vary from $6,684 in States that have no supplementation for those living independently, to $11,232 in California. New York has a maximum of $7,320 for couples, and Maine, the lowest of those who have supplementation, $6,804.

Only about two million people over 65, less than 7 percent of the total number, are now receiving Federal SSI payments. The fact that the percentage is so low is largely due to the success of the social security program. In 1950, when only 17 percent of the elderly received social security, old-age assistance, the predecessor program to SSI, went to 23 percent of those over 65.[7]

How the Four Tiers Fit Together

The four tiers of our retirement income system fit well together. Social security has a weighted benefit formula replacing a higher proportion of earnings for those with low wages, and these are the workers least likely to have private or career-government pensions or asset income. For workers with below-average earnings,

[4] Ibid.

[5] SSI is available only to people with very little in the way of assets. With the exception of a home, life insurance policies of less than $1,500 face value, household goods and personal effects of less than $2,000 and the first $4,500 of the market value of an automobile, all other assets must total less than $1,600 for an unmarried person, less than $2,400 for a couple in 1985, increasing gradually to $2,000 and $3,000 in 1989. Partly because of this stringent asset test and partly because of the low-income thresholds, all of the households headed by elderly persons that are below the poverty level only half are receiving SSI.

[6] "Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means," Committee Print, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C. 1985. Tables 6 and 7, pp. 444–445.

[7] Annual Report of Federal Security Agency, 1950. Tables 5 and 6, pp. 91–92 and author's calculation.

social security is just about all there is. For the worker who earns the minimum wage all of his or her life, social security replaces about 56 percent of recent earnings for the single worker, and 84 percent for the couple. For a worker earning average wages throughout his life, the replacement rate drops to about 41 percent for the single worker and 62 percent for the couple. For those who earn at the maximum all their lives, the social security replacement rate drops to 27 percent for the single worker and 41 percent for the couple.[8] Increasingly, above-average earners have private pension supplementation and some asset income which bring their total retirement income up to more adequate replacement levels. For higher-paid earners the retirement system is a combination of the first three tiers.

REMAINING INCOME SECURITY PROBLEMS

Althouth the income maintenance system for older people is increasingly successful, there are still problems. The per capita poverty rate for those over 65 is still considerably higher than for adults 25 through 64, 14.1 percent compared to 11.2 percent (those under 25 have a poverty rate of 20.6 percent).[9]

But equally important, looking at all those over 65 as a group is misleading. Many of the 65 to 70-year-olds work at least part time, and a high proportion of women at this age still have the advantage of sharing a husband's income. Poverty among the elderly is now heavily concentrated among three groups: the unmarrieds (widowed, divorced and never married), the very old and minorities. Among family units with one person over 65, couples have a poverty rate of 9 percent, but unmarried men have a 19 percent rate and unmarried women a 24 percent rate. And, of course, the proportion of the elderly made up of umarried women is very large and increases dramatically at older ages. Of all family units over 65 (that is, defining either a couple or a single person as a unit), 47 percent are unmarried women. By age 85, out of a total of 1.8 million units, two-thirds, 1.2 million persons, are unmarried women with a poverty rate of 25 percent, even when total family income is taken into account for those who live with friends or relatives. At this age, even the couples (400,000 units) have a 15% poverty rate, while the 300,000 unmarried male survivors have a 17 percent rate.[10]

For elderly blacks, the poverty rate is very high. For all units over 65, the rate is 40 percent, for couples 26 percent, unmarried males 38 percent and unmarried females 48 percent.[11] Poverty rates for the elderly of Hispanic origin are also very high, 23 percent overall.[12] So in spite of progress toward an adequate system of income maintenance for the elderly, we are a long way from being able to claim complete success. The high rate of poverty among unmarried women, the very old and minorities and the fact that two-thirds of the very old are unmarried women need to be kept very much in mind as we plan for improvements in our four-tier system of income maintenance and in improvements in health care for the elderly.

CAN WE PAY FOR WHAT WE HAVE PROMISED?

But before we get to improvements, what about the argument that we can't afford what we have already promised—that when the "baby-boomers" reach retirement age in the next century, social security, Medicare and other promises to today's workers will need to be cut back?

This notion, which I believe is wrong, is based primarily on the expected increase in the ratio of persons over 65 to those 20 through 64 as the "baby boom" generation retires and the "baby bust" generation that follows makes up the largest part of the work force. Here are the figures: Today there are about 20 people over 65 for every 100 persons age 20 through 64. The ratio rises slightly to 21 per 100 by 1990

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[8] It should be noted that these replacement rates do not represent the true situation of most workers. For example, workers who end up with a career average that equals the average wage at the time of retirement have typically had wages that were below the average when young and well above the average in the years shortly before retirement. Thus these "average" workers get benefits that do not replace nearly as much of their recent earnings as the illustrations imply. The same over-statement of the ratio of benefits to earnings just before retirement occurs at all wage levels (except for the consistently maximum earner), with the result that there is more need to supplement social security than would appear from looking at these commonly used illustrations.

[9] "Characteristics of the Population below the Poverty Line, 1983," Current Population Report P60-147, Table 11, p.40. Bureau of the Census, Washington, D.C. 1985.

[10] Current Population Survey, Bureau of the Census, March 1983, unpublished data.

[11] "Income to the Population 55 and Older, 1982." Table 48, p.82, U.S. Department of Health and Human Services, Washington, D.C. 1984.

[12] "Characteristics of the Population below the Poverty Line," 1983. Op.Cit.

and stays approximately level until after the year 2005. But it then rises rapidly, and by 2035, the ratio is at the peak figure of 41 per 100, flattening out after that. In the 30-year period from 2005 to 2035, the over-65 population is estimated to rise from 38 million to 71 million (an 87 percent increase) while the 20-64 age group stays just about the same, rising slightly from 173 million in 2005 to 179 million in 2015 but dropping back to 173 million in 2035.[13]

Now, of course, these ratios are not a direct measure of retirees to workers. Not all people over 65 will be retired, and not all 20 through 65 working. Labor force participation rates of older people, the level of unemployment in the future, the extent to which people before 65 are disabled for work or elect early retirement, and the extent to which women will prefer work in the paid labor force to work at home are all important factors affecting the ratio of retirees to workers. The demographic shift is so large and so rapid, however, that it, more than anything else, will govern the worker/retiree ratio. In all probability, the ratio of the retired aged to those at work will be much larger in 2035 than it is today. However, this is not the whole story. At the same time, the number of children to be supported by the working-age group will be declining. While the ratio of non-working elderly to those at work will rise, the ratio of all non-workers to workers is not expected to go above even the recent past. The various assumptions which produce an increasing ratio of older people to those 20 through 64 also result in a declining ratio of those under 20 to the 20-64 group. Thus, if instead of the ratio of those over 65 to those 20-64, we take what has been called a *total* dependency ratio—the ratio of those over 65, plus those under 20, to the group 20-64—we get a much different picture than if we look only at the elderly. It just is not true that reasonable demographic assumptions show a large increase in the number of dependents per worker after the early part of the next century. Instead, what they show is a shift in the composition of the dependency group—fewer children, more elderly.

Today we have about 70 persons either over 65 or under 20 for every 100 in the age group 20 through 64. Over the next 25 to 30 years, this ratio drops steadily until it reaches a low point of 65 per 100 around 2010. Up to that year there are actually fewer dependents per person age 20-64 than we have now. Then the ratio rises, reaching where we are today about 2017, but even at the high point beginning about 2035, we get a ratio of only 85 per 100 as compared to 90 in 1970, and 95 in 1965.[14] Moreover, productivity increases—even modest ones—will make it easier for workers to support non-workers. Modest increases of 1¾ percent a year, on the average, translate into a doubling of real wages by about 2025. In the future, people may need to shift some of the resources that would once have been spent to raise children to building the kind of world they want for themselves and others in retirement, but they will have the means to do so.

Let us look narrowly at OASDI for a moment. Under present law, it is not only adequately financed over the next 75 years in technical actuarial terms but as a percent of GNP OASDI fluctuates within a relatively small range over the whole 75 years. In 1985, 4.9% of GNP is going to this program. Under the trustees' intermediate estimates, the precentage drops steadily until it reaches 4.3% in 2005, and then rises gradually until by the year 2015, it is about where it is today. It goes up somewhat after that, the maximum being a little under 6.3% in the year 2030, and then drops back to 5.7% in 2060.[15] The financing in present law which provides for a maximum OASDI contribution rate of 6.2% of earnings beginning in 1990 (compared to 5.7% today), fully takes into account the demographic changes described.

WORK AND RETIREMENT

Although it is not crucial for the future support of the elderly, it seems to me desirable as we face a future of more older people and relatively fewer workers between 20 through 64 that older people who want to work have the opportunity to do so. The trend toward earlier and earlier retirement means that under conditions of full employment, society as a whole will have fewer goods and services available than if workers, on average, worked to a later age. Thus artificial barriers to older people working need to be removed and employers and unions encouraged to pursue policies that keep work opportunities open at all ages.

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[13] 1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. Washington, D.C. 1985. Assumptions, II-A, II-B, Table A1, p.77.

[14] Ibid.

[15] 1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds. Op. Cit. Table 31, p.69.

It is good that the 1983 Amendments have put social security on a course where total benefits paid can be expected to be the same whether workers retire early or late. Beginning in 1990, the increment for work between 65 and 70 will be increased gradually to an actuarially fair rate, and benefits paid before 65 will continue to be reduced actuarially.

Private pensions which are usually only payable if a worker stops work for the employer completely continue to be an important incentive to retire. Some employers do pay partial benefits to workers who choose to retire gradually, and hopefully this idea will spread.

Additional opportunities for older workers can be expected to open up in the near future as the pressure of new entrants into the labor force declines. Given the low birth rates in the seventies and eighties, employers soon can be expected to value older employees more.

Yet it is overly simplistic to think that jobs will be there for all, or that older people in the future will be able to work longer just because they will live longer. Much depends on the kinds of work in question and on the health status of the elderly, not their longevity. We just don't know enough to change the age of first eligibility for full pensions because we may think it is desirable for people to continue contributing to the economy rather than drawing pensions. I would stress opportunity for work, the removal of barriers to work and even incentives to work, but not changes in present eligibility that affect the skilled and unskilled alike and all workers the same, regardless of their industry attachment.

RECOMMENDATIONS FOR IMPROVING THE FOUR-TIER SYSTEM

Although I recognize that proposals for greater government spending are not likely to be approved soon, over time, assuming even modest productivity gains, present workers will be able to improve the four-tier system of income security for themselves and the present elderly if they want to. As first priorities, I would suggest raising the Federal payment standard in SSI, particularly for the single person,[16] and liberalizing the asset test. This would help the very poorest of the poor among the elderly.

Let me stress that, in my opinion, social security is doing very well as it is. I think the program needs a rest from change. I believe it should just be allowed to work and as the funds build up, confidence in the program will continue to increase. Certainly no fundamental changes are needed. On the contrary, it is important to preserve the basic program principles that are responsible for social security's great success. Benefits initially should continue to be based on past earnings, updated to reflect increases in productivity and thus the level of living of the community. Once awarded, benefits should continue to be inflation-proof. The benefit formula should continue to be weighted in favor of the lower-paid worker and those with dependents, although I believe that a 50-percent supplement for a spouse is somewhat too high. The right to benefits should continue to be based in part on deductions from workers' earnings and not conditioned on the income of the beneficiary. To the extent possible, the program should cover compulsorily all work, with protection following the worker from job and with occupational pensions built on top, as appropriate.

This should include extension of Medicare to the 30 percent of state and local employees not now covered and OASDI coverage for state and local employees newly hired, following the procedure adopted for Federal employees. The arguments for coverage are the same. Many state and local employees would greatly benefit by this change and others who are getting protection at bargain rates would be required to pay their fair share of our national system of social security. The long-range savings to both Medicare and OASDI are significant. Medicare would save about 0.09 percent of payroll, reducing the present deficit over the 25 years generally used to measure the Medicare actuarial balance from −0.68 percent of payroll to −0.59 percent. OASDI would save about 0.20 percent of payroll. Although OASDI is in "close actuarial balance"—that is within plus or minus 5 percent of the cost of the program calculated over 75 years—the 1985 Trustees Report showed a small 75-year imbalance of 0.41 percent of payroll. This change would reduce that imbalance to 0.21 percent of payroll.[17]

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[16] Both SSI and social security seem to have overstated the needs of couples as compared to those living alone. Although the poverty measure for singles is 80 percent of the measure for couples, these programs give the single person only two-thirds of the amount granted the couple.

[17] At the time, the Congress, I believe, should consider the desirability of requiring the state and local plans to disclose their actuarial status to the employees covered and to the public. The

Continued

The concept of family insurance, as well as retirement protection should be preserved.

In my review, the self-financed nature of the system leads logically to its separation from the unified budget and its administration by a separate agency governed by a bi-partisan Board, as was the case in the early years of social security.

In the long run, I would suggest improving benefits for single workers, divorced women and widows, while leaving benefits for couples at the levels provided by present law. This can be accomplished by a 7% increase in retirement and widow's benefits (the primary insurance amount) while reducing the spouse's benefit from 50% to 40% of the worker's benefit. (Other changes would be needed to improve benefits for divorced homemakers). This change could be financed by an increase in income equivalent to a contribution rate increase of about one-third of 1 percent each on employees and employers (0.66 percent of payroll). Such a change would increase benefits where they are needed most.

In the private pension areas, I would stress the need for at least limited protection against inflation and the protection of pension funds against corporate management capturing "surplus" funds when surplus are defined as they are today. Perhaps changes need to be made in the way private pension "surplus" are calculated under current regulations. It doesn't seem to me that there is a "surplus" unless the plan has enough money to pay the claims that would be built up by future earnings estimated to rise in accordance with reasonable assumptions about inflation and productivity. Under present practices, where "surpluses" appear when liabilities for vested benefits are calculated as if the plan were about to be terminated, millions of workers are in danger of losing private pension protection. These "surpluses" are tempting targets for corporate raiders who can terminate the plans and substitute cheaper plans, and, in other cases, current corporation managements are tempted to do the same thing to improve their capital positions. In my view, the liability of a pension plan for, say, a fifty-year old worker is not only the pension rights he has earned so far but what he can be expected to earn in the future. Certainly that is what he or she is counting on, as he is under social security. Allowing employers to take back "surpluses" above the financing of vested benefits calculated as if the plan were to be terminated is undermining the reasonable pension expectations of the workers under these plans.

Finally, although I very much favor people saving for retirement on their own to the extent they can reasonably do so, I am not sure we should be subsidizing such saving through IRA's, when the Federal government has such a great need for additional income. Clearly IRA's help most those who have the most. At the very least, it seems to me, before expanding these tax expenditures as proposed by the Administration, the Congress should make every effort to determine whether they are, in fact, increasing the saving rate, or whether those who are well off have just been shifting to this additional tax shelter savings they would make anyway.

CONCLUSION

Money may not buy either health or happiness, but its absence certainly make everything else worse. The elderly, particularly those of very advanced age, are faced with many inevitable losses: the loss of familiar roles, the loss of friends, the loss of a spouse, the loss of physical strength, a lessening of the ability to see and hear, and the loss, for many, of a sense of worth and function. It is intolerable and destructive of both mental and physical health if we add to those inevitable and accumulating losses the loss of an adequate and dependable income. The foundation of success in retirement is an assured and adequate income paid as an earned right to accord with the self respect of people accustomed to provide for themselves.

The elderly also need protection against the unpredictable costs of expensive illness and physical and mental dependency. In the last 50 years we in the United States have developed a multi-faceted approach to the provision of such income and medical insurance protection for older people that in most respects has been very successful. Although improvements can be made, on the whole, what we have is working well. We need improvements at the margin, not radical change. As the President's National Commission on Social Security Reform recommended unani-

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future security of millions of workers is dependent on the funding adequacy of these plans, and yet there are no Federal reporting and disclosure requirements as there are for private plans in ERISA and for social security in the requirement for annual reports by the trustees. Most plans may be sound enough, but the public and the employees covered have a right to know the current value of the funds invested related to future obligations and expected income, with reports produced under accepted and defined actuarial standards.

mously in 1983 in recommendations #1: "The members of the National Commission believe that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles . . . The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial needs."

Chairman HEINZ. Bob, thank you. I have a couple questions for you, but I think this is an appropriate time to go to Bob Myers, who served as the Chief Actuary of the Social Security Administration for so many years. The fact that we kind of held off discussing why Social Security, in fact, is, first, a good deal for people and, second, why it is financially sound is I do not know anybody that can speak better on those two issues that really affect public confidence in the System.

Bob, it is a pleasure to have you here.

STATEMENT OF ROBERT J. MYERS, WASHINGTON, DC, FORMER EXECUTIVE DIRECTOR OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Mr. MYERS. Thank you, Senator. I think that it is particularly auspicious that this briefing is held on the day when Social Security becomes 50 years old. Now, I know somebody will note that the Social Security Act was really signed on August 14, not August 13. As you may know, under Social Security, a particular age is attained on the day before the birthday; so today is really the 50th anniversary, and I think you have scooped all the other celebrations in the country.

I certainly agree with what my friend Wilbur said about the area of agreement amongst the three of us on taking Social Security out of the budget, as you have proposed so ably, about Social Security being an independent agency and about Social Security giving better service to the beneficiary. However, I want to assure the audience that we are not just three peas in a pod. We do have certain differences of opinion, but they are usually differences of degree, not over the general nature of the System, as to whether it is desirable or feasible.

I would like to discuss two matters of a financing nature. First, do young people get their money's worth out of Social Security? My answer is a resounding "Yes."

What about those who say that they do not, such as has been alluded to here this morning? Basically, I think they commit two errors. First, in asserting what people could get from the private sector with their Social Security taxes or contributions, and building examples of this, they use a very unrealistically high interest rate. They assume that you can get 6 to 8 precent in excess of inflation. In other words, if inflation is 5 percent a year, they say you can get 11 to 13 percent. In some periods, you might approach that, but there are many periods in history when you could not. The interest rate which they should use would be something like 2 or 3 percent. Doing that makes a great deal of difference in the calculations.

Second, they assume that the employer tax belongs individually to each employee. In the aggregate, economists can well argue that the employer tax is paid as part of the remuneration bill of all employees; this may be true, but it does not mean that each individual, therefore, should have the use of the employer tax. This same thing happens in private pension plans. The employer may put in an average of, say, 5 percent of payroll, but each employee does not get 5 percent. Some will get more, and some will get less.

Therefore, I say that any money's-worth comparison should take into account only the employee contribution. On this basis, everybody gets a good deal from Social Security. Some get greater bargains than others, but everybody gets at least their money's worth.

Next, considering the financial situation of the Social Security System, there is a lot of confusion—prehaps intentionally created—by those who say the system is unsound and is bankrupt, because they combine the cash benefits program with Medicare. As I discuss later, Medicare has its problems, but I think that they can be solved. But, the cash benefits program has no problems under a reasonable basis of consideration. You can imagine some conditions when there would be problems, but, generally speaking, they are unlikely.

The 1983 amendments, in whose development and passage the distinguished chairman of this committee played such an important role, basically restored the financial solvency of the OASDI Program over both the short range, which means the 1980's up into the early 1990's, and also over the long range. The estimates made for the short range were done under very pessimistic conditions. The experience to date has been much more favorable than this. The system is in good shape over the short range, and it would be a very unusual set of circumstances that would result in any financing problems in the short range—the next 5, 10, or 15 years.

Over the long range, of course, nobody can make precise estimates of what will happen in 75 years. I think that the present estimates that show that the system is adequately financed over that period are reasonable, but I would never assert that absolutely this is so.

However, if the program does get into difficulties, those difficulties can be solved. As President Reagan said when he signed the 1983 act, by people working together—the administration and Congress—small changes could be made so that everybody would bear a little of the burden, and the system would be viable over the long run.

What changes, if any, should be made in the near future? I agree that, in general, there should not be any. The cash benefits system should be left untampered until public confidence is built up again. I think certain changes can be considered in the next 4 or 5 years. Certainly, however, I hope that the bill as to removing Social Security from the unified budget that the distinguished chairman has introduced, will be enacted before October 1.

Another change that I think would be desirable would be that the fund should not be allowed to build up too much. In the past few years, we have been worried about the fund being too small. Under present estimates, if experience goes according to the best estimate, in the 1990's and early 2000's, the fund will be built to too large a level. It will be equal at the peak to five times annual outgo, and that is an awful lot of dollars. At present, that would be almost $1 trillion. There are all sorts of economic and fiscal problems involved if you have that large a fund. So, I would propose that the 1988 tax increase should go into effect, as Bob Ball says, but beginning in 1990, there should be an automatic adjustment procedure so that the fund will not grow larger than a certain amount, 50 to 60 percent of the annual outgo. Likewise, if the fund would go down, the tax rate would automatically rise.

One other change that I would make is in regard to a provision in the law that provides that the cost-of-living adjustment when the fund is very low, will be based on the increase in wages or in prices, whichever is less. I think that, if the system starts getting into trouble, and if workers are getting smaller raises than prices go up, which is only a temporary economic condition that occurred in the early 1980's, then to protect the solvency of the system, the beneficiaries should get an increase only equal to the increase in wages. Later on, when things reverse, they get paid back that difference.

The present law does that, but at such a slow rate. In other words, the fund has to be so small that the provision will not be operative soon enough to protect the solvency of the system. I suggest that the trigger point where that occurs should be higher than under present law, so that, if things start turning bad, the system won't snowball downhill as it did in the late 1970's and early 1980's.

Finally, as to the Medicare system, particularly the hospital insurance part in the early 1980's, we expected trouble to happen in the late 1980's. The experience to date has been better. Some cost controls have been introduced, and now the point of disaster is in the late 1990's, so that the system is quite safe for a while. At the present time, the fund has assets that amount to about half a year's outgo if included in the assets is the loan that the hospital trust fund has made to the cash benefits program.

At some point, the general public has to face the question of the cost of medical care, not just for Medicare beneficiaries, but for active workers, too. The cost of health insurance for workers has been rising in cost, and people will either have to find ways to control utilization or else, finally, to pay for it through higher taxes and higher premiums for health insurance. What the answer will be, I cannot say what is preferable. Perhaps it is a combination, but this is an issue that the Congress and the American people will have to face in the coming years—not next year, perhaps. I hope that consideration will not be delayed until we are at the brink of another disaster as we were in 1982.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Myers follows:]

The Prepared Statement of Robert J. Myers

Mr. Chairman and Members of the Committee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies during 1934-70, being Chief Actuary for the last 23 of those years. In 1981-82, I was Deputy Commissioner of Social Security, and in 1982-83, I was Executive Director of the National Commission on Social Security Reform.

It is particularly auspicious that this Briefing is held on the day when Social Security becomes 50 years old. Some may dispute this statement, because the 50th anniversary of the signing of the Act occurs tomorrow. However, under Social Security, people attain a particular age on the day before their birthdate.

I shall discuss several topics—whether young people will receive their money's worth for their contributions over the years (a question of inter-generational equity) and the financial soundness of the Old-Age, Survivors, and Disability Insurance and Medicare programs.

WILL YOUNG PEOPLE RECEIVE THEIR MONEY'S WORTH FROM SOCIAL SECURITY?

It is often asserted that young people participating in the Old-Age, Survivors, and Disability Insurance part of the Social Security program will not receive their money's worth. This view is not correct. It is based on the presumption that the employer tax "belongs" to each employee individually and often also on the use of an unduly high interest rate. Although, in the aggregate, the employer taxes are part of the remuneration cost for employees' services, they cannot validly be assigned individually on a pro rata basis. This is the case just as it is in employee benefit plans in private industry, where generally each employee does not receive benefit protection having a value exactly equal to the average employer cost. For example, in a pension plan, older employees have much higher than average costs, while other groups have less.

Often, people make erroneous money's-worth comparisons by ignoring the automatic adjustment of Social Security benefits for changes in economic conditions. This feature can properly be taken into account by using a relatively low interest rate for discounting future retirement benefits, rather than assuming a high interest rate (such as 7–10%) in combination with non-increasing benefit amounts.

I have made computations giving a proper actuarial analysis of the money's-worth issue. The value of the benefits for retirement at age 65 for single men, single women, and married couples are compared with the taxes accumulated at interest to that point. For a particular year of retirement and earnings level, single men have lower values of benefits and thus less of a "good buy" than do single women (who have longer life expectancies). Similarly, married couples have larger values of benefits than do single persons.

Considering only the employee tax, single-male average-wage workers retiring in 1985 receive 252% more as to the value of their benefits as against their taxes. For retirements 40 years from now, less of a "bargain" will occur, but the value of the benefits will still be 72% higher than the value of the taxes. For the maximum-wage case, the corresponding figures are 201% for 1985 retirees and 16% for 2025 retirees. The situation for retirees after 2025 is about the same as that for 2025 retirees. Thus, for all time to come, all employees do get their money's worth from Social Security.

FINANCING SITUATION OF OASDI

The 1983 Amendments, in whose development and passage the distinguished Chairman of this committee played such an important role, basically restored the financial solvency of the OASDI program over both the short range (the 1980s) and the long range (the next 75 years). Consideration of the short-range financing problems was based on actuarial estimates which used reasonably pessimistic economic assumptions, whereas the analysis for the long-range situation was based on intermediate economic and other assumptions.

A number of persons have recently asserted that there may be a financing crisis in the next few years. However, they incorrectly believe that the short-range financing was based on the use of intermediate economic assumptions, and that the actual experience may turn out to be less favorable.

The actual experience to date has been favorable—somewhat better than the intermediate cost estimate made at the enactment of the 1983 Amendments, and considerably more favorable than the pessimistic cost estimate. The balance in the OASDI Trust Funds on September 30, 1984 was $1.9 billion higher than under the original intermediate estimate for that date, and $6.4 billion higher than under the corresponding pessimistic estimate. This result occurred because actual income significantly exceeded the estimated income (with actual outgo being slightly higher than that estimated). Another evidence of the good financial health of OASDI is that in January 1985, it was able to repay part of the loan from the Hospital Insurance Trust Fund—far ahead of schedule.

In my opinion, it is unlikely that OASDI will have a financing crisis in the 1980s—and also unlikely for the following two decades, at least. The only thing that could cause such difficulties in the 1980s would be extremely poor performance of the economy—namely, wages increasing at about the same rate as prices (or, worse yet, less rapidly) over a period of years, coupled with high unemployment.

The long-range financial status of OASDI is measured over a 75-year period. This is essential so that the emerging future costs will be reasonably recognized, particularly those resulting from the maturing of the population as the survivors of the post-World War II baby boom constitute the bulk of the retirement cohort.

Estimates made for such a long future period cannot be expected to be precise. Such estimates are dependent not only on demographic elements, but on economic elements such as future price and wage inflation. Nonetheless, estimates made with realistic assumptions can be a very helpful guide to the necessary future financing of the program.

The intermediate cost estimate that was made at the time of enactment of the 1983 Act indicated that OASDI was in very close long-range actuarial balance. In fact, the changes made were developed to produce this result. Subsequent estimates continue to show a long-range actuarial balance.

FINANCING CHANGES NEEDED FOR OASDI

Contrary to popular belief, OASDI is not financed on a pay-as-you-go basis (under which income and outgo are roughly in balance each year, and only a relatively small contingency fund is maintained). Such situation has existed in practice during the last two decades, on a de facto basis. But, it will not be the case after the 1980s under present law if the intermediate-cost estimate comes to pass.

The reason is that the 1983 Act provided for the OASDI tax rate to increase sharply in 1988 and 1990, and be level thereafter. During 1990-2020, the tax income will be well above the outgo; after 2020, it will drop below. (Under a true pay-as-you-go basis, the income would equal the outgo.)

Thus, the current theory for financing OASDI is to build up a large fund in 1990-2020 (as much as five times annual benefit outgo) and then liquidate it to meet the excess of outgo over income in subsequent years. The result will be that the fund becomes exhausted at the end of the 75-year valuation period. Subsequently, the tax rate for employer and employee combined will need to be increased by slightly more than 2% of payroll.

Tax rates in the 1990s and early 2000s are apparently too high and will result in the build-up of too large a fund. This build-up should be prevented by an automatic-adjustment procedure that will lower the tax rates when the fund balance exceeds 50-60% of annual outgo—and which will increase the tax rates when the fund balance falls under this range.

A possible financing problem would occur if economic conditions become unfavorable—especially if there were to be a repetition of what happened in 1979-81, when prices increased much more rapidly than wages. Under such circumstances, benefits (when adjusted by changes in the CPI) increase more rapidly than income from payroll taxes. Under present law, when this occurs and when the trust funds are low, the indexing of the benefits is based on the lower of wage or price increases.

This is very desirable insofar as it goes, but the difficulty is that the trigger point which determines when the fund is "too low" is itself set too low. As a result, the indexing on this modified basis—which is equitable in that the beneficiaries will not then fare better than the active workers—might go into effect too late to prevent a catastrophic decline, and then exhaustion of the trust funds. Accordingly, the trigger point should be changed so as to be much higher—say, 50% (i.e., when the fund balance is less than 50% of the year's outgo, rather than the present 15% in 1985-88 and 20% thereafter).

FINANCING SITUATION OF MEDICARE

The cost estimates in the 1985 Trustees Report show a much more optimistic picture for the Hospital Insurance Trust Fund than those in the previous report. Under the intermediate estimate, the point of bankruptcy has advanced from 1991 as estimated in the 1984 report to 1998 in the current report. Nonetheless, this merely means that the bad news has become slightly better and does not mean that HI will not have an financing problem over the long run. A solution of some sort is necessary—just as it is for the health-care costs of the working population and its dependents.

The improved financial status of HI has, in part, been due to the more favorable operating experience in the recent past (perhaps in part due to the psychological reaction to the new Diagnosis Related Group method of reimbursing hospitals, which is currently being phased in).

A more important element insofar as estimated future costs are concerned is the assumption that increases in hospital reimbursement rates will be greatly held down by government regulations. Whether or not this can be done is a question. Are there sufficient inefficiencies that can be remedied or cost-saving procedures that can be adopted? Or will services to patients be reduced? Or, if not, will the financing crises come earlier than the late 1990s?

At the moment, the HI Trust Fund has an adequate balance, about 50% of a year's outgo. The Trustees Report shows only 20%. The explanation of the difference is that the report—improperly, from an accounting standpoint—does not include as an asset the amounts owed by the OASI Trust Fund. Such inclusion should be made because the amount owed is a "good" loan (and will likely be repaid in the next two years). At the same time, the HI Trust Fund will have no cash-flow problems before repayment of the loan is completed.

From a financial and actuarial standpoint, the Supplementary Medical Insurance Program is in great shape. The assets on hand are well in excess of the liability for claims incurred in the past but not paid (by a margin of about 27%). However, there is a financing problem in the sense that costs have been rising rapidly over the years and will apparently continue to do so in the future. Thus, enrollee premium rates and payments from the General Fund of the Treasury too will soar.

Chairman HEINZ. Bob, thank you very much. I have got a lot of questions. We do not have time for all of them. I am going to focus on two of them. One issue that recurs again and again, and Bob Ball touched on it in his prepared testimony is the issue of earning and sharing. What we are really talking about are people who, in fact, have paid into Social Security or, as women may get divorced, if they are separated from their husband, they go down to not having a source of dependable income. People who are widowed at an early age often fall into similar situations. We have just had a report on three different kinds of options of earnings sharing, but no conclusions have really been reached.

Now, in Bob Ball's testimony, I detect a proposal for earnings sharing that would change the cash benefits program. As I understand your testimony, Bob, that you qualified by saying in the long run, you suggest making that change. Do I understand your testimony correctly?

Mr. BALL. Not completely, Senator, I evidently did not write it very clearly. One problem I have with earnings sharing is that it really does not help elderly women today, who are now the poorest group among Social Security beneficiaries. Modified earnings sharing that people are proposing really deals with a very long run situation, and it deals more with what is perceived as equity issues, rather than with the question of adequate benefits.

The notions that I was trying to describe on page 20 would go in a somewhat different direction. I recognize that this idea has a significant cost and is not a feasible proposal immediately. What I was proposing was to raise what is called the primary insurance amount—what is paid to retired workers and disabled workers—and, at the same time, reduce the spouse's benefits, so that couples would get the same benefits as they do today. They are the best off among Social Security beneficiaries. You would not reduce their benefits. They would get the same. On the other hand, those who are the worst off under Social Security, single workers and widows would get more. You would have to do something different for the divorced than what I have suggested here.

The specific proposal is to have a 7-percent increase in retirement benefits and a reduction from 50 percent to 40 percent in the spouse's benefits. Now, that costs about two-thirds of 1 percent of payroll and is something to consider down the road.

On earnings sharing, I would say that the principles appeals to me very much. I like the idea of marriage being considered an economic partnership in which you take the earnings of both or the earnings of one, if there are earnings from only one, and divide them equally and then have benefits flow from those two independent wage records. Such a record can follow a person through a variety of marriages and jobs and different situations. However, it is extraordinarily difficult to work out a sensible proposal with good transition provisions to protect present rights, and I guess I am not yet convinced that it is worth the degree of confusion, technical difficulty, administrative problems, and cost that it would take to get there.

If we were starting a new program now, I would have no problem basing it on earnings sharing.

Chairman HEINZ. What you have described is a lot like some people have described, strict portability of pensions, which has enormous appeal to me. Workers are mobile and should be able to, in some sense, transfer their pension benefits once vested or earned and be able to continue to build on that. But, in fact, the practicality of doing that has eluded almost all of us today. At the present time, those of us working on private pension reform legislation are going to have to settle for something less than that, such as earlier vesting and some better rules to protect pension adequacy as, indeed, I understand you really fought for in your proposal.

You are really trying to show up some of the most inadequate areas here, and you admitted that they are, nonetheless, expensive areas to show up.

Mr. MYERS. I come back with the same point as Bob Ball does. In theory, I think that earnings sharing is a great thing. If we were starting from scratch, I would do it. It is one of these examples that "you cannot get from here to there" without tremendous cost. I would approach the matter in a different way than what Bob Ball suggests. I would go about eliminating situations of inequity by incremental means, as you recall we did with certain proposals of the National Commission which were legislated. I think that action could be taken to give more child-care credit years—as we do in a little way now. There could be more of that. I think, also, that the divorce requirement of 10 years might be lowered to 5 years, as you may remember was contained in the so-called Republican alternative bill in 1977.

Chairman HEINZ. Wilbur, do you have a comment on that?

Mr. COHEN. I would say my views, although quite the same as my two colleagues, but my criteria for decisionmaking is probably a little different in a sense. I think it all could be done, and I think it would be more equitable, and I think all the problems that Bob says could be solved. I do not think that is the issue.

If we got two-thirds of 1 percent of payroll, I would like to use it on what I think are much more important elements, which I say is long-term care. I mean, one cannot do everything all at once. You have to decide your priorities in terms of what overall social needs are. The Social Security Program is far from perfect. It needs a lot of things, and if money was no object, I could suggest a lot of ways it would be improved. But I think you always have got to balance social adequacy with social costs.

Therefore, my answer is, if you said, gee, we do have two-thirds of 1 percent of payroll to do this wonderful thing, I would say to you, use the two-thirds of 1 percent of payroll for long-term care and/or prescription drugs or some other alternatives I have. So it seems to be the issue is not trying to perfect this system so that every individual has perfect equity, but whether the social needs of the Nation as a whole are served in relation to the social cost. Therefore, I think you come to a different conclusion.

Chairman HEINZ. I have saved the next question for last because it is the toughest question. It refers to the notch, and there is a large notched saw out there. By way of introduction to this problem to which I know none of you are strangers, last night I had a town meeting in Beaver Falls in Beaver, PA. There was a small contingent of notch babies there, and we had a discussion of the notch problem.

We identified the fact that there are at least three clear solutions, the first two of which can be justified one way or another in the name of equity. Solution No. 1 is to take the unintended benefits that were bestowed by Wilbur Mills upon those born between roughly 1912 and 1916, take those benefits where the replacement ratio rate got up to say as much as 56 percent for the people who retired in 1979, just take that away. In some sense of the word, that would be fair and there would be no notch under thoses circumstances. You would have created the straight replacement ratio line. That was one solution.

The second solution would be to raise everybody to the level of the peak of 1979 and raise, in effect, the replacement rate from, currently, 40 percent to around 56 percent, about a 38-percent increase in benefits both for the notch babies and for anybody who would come after them forever. That costs a lot of money.

The third alternative, which was the only other one that occurred to anybody, was to recognize that there was some problem with both of those solutions. The latter costs a lot of money. The former cuts benefits for people who have already got them, thereby penalizing other people for a problem not of their making. The third alternative, the one that Congress occasionally chooses when confronted with the delve in the deep blue sea, is to do nothing.

Having discussed all that, we then put it to a vote. There were about 250 to 300 people present. In terms of cutting the benefits of the people who got the unintended benefits, I would say that, maybe, a dozen people, about 5 percent at most of those present, raised their hands. In support of raising the notch babies to the level of the people who were preceding them, I would say, maybe, another dozen or so people raised their hands. They were notch babies. On the question of doing nothing, I would say that another dozen people raised their hands. Clearly, I have not thought of every alternative because the vast majority of people were not satisfied with any of those solutions.

My question to you is—and whoever wants to stick their head into the lion's den is welcome to do so. Speaking of notches, maybe they should be called fangs, I do not know. What is the right solution to the problem and why? Because as there are several dozen people out there in the audience who will tell you, when they look at their Social Security check and they find it is $100 less than somebody who they may have worked side by side with for a lifetime and they retired a year or two later, they find it pretty difficult to understand.

Who wants to address that issue? Bob Myers, I see you flinching.

Mr. MYERS. Yes; I am afraid. I have addressed the issue of the notch before. I am afraid that perhaps the tar and feathers are being prepared in the anteroom, but I think I can speak quite objectively about this matter. I have studied this subject, I might say in all modesty, more than anybody else in the country.

In 1977, the notch was introduced as part of an overall change in the system. I do not think that Wilbur Mills can be blamed for this. It was the 1977 legislation that did it.

Chairman HEINZ. Well, the problem that was created when the first index—the problem that created the notch was the unintended raising of the benefits, I believe, at least for the prenotch babies.

Mr. MYERS. That is correct, Mr. Chairman.

Chairman HEINZ. When was that created?

Mr. MYERS. In 1972.

Chairman HEINZ. It was 1972 when we put in the annual cost-of-living increase.

Mr. MYERS. Yes, but in 1977 when the technical flaw in the 1972 act was corrected, the notch could have been prevented. In fact, if I might say, I testified before the House Ways and Means Committee that this was a problem which was going to occur. I did not realize that it was going to be as bad as it has been because of the actual economic conditions, but I knew there was going to be a problem.

What happened was that the Social Security Administration, unfortunately, said they couldn't handle it any way administratively. I thought that they were wrong, but they said so. In 1978, hearings were held again by the Ways and Means Committee about the notch, because now more and more people were aware that it was happening. I again testified, and I proposed a way of solving the problem; but, again, the Social Security Administration said it could not be done administratively.

When I went back in 1981 as Deputy Commissioner, I banged a few heads together and convinced them that it could be done, but by this time, since no legislation was enacted in 1981, it got to be too late.

You are quite correct as to the three possible solutions. On the first one, in essence, of taking the windfall or excessive benefit away from the people born in 1916 and earlier who are really getting too much, this could be done more or less painlessly by denying them the cost-of-living adjustments until the windfall was caught up. That would be a terrific administrative job as well as a public relations job, to say that some people do not get the COLA.

It should be made clear to people that the notch does not occur for everybody born before 1917. They do not all get a bonanza. The ones who get the windfalls are those who became 62 before 1979 and who worked well beyond age 62. The longer they worked, the bigger the notch. If everybody retired at 62, there would have been no notch. So a so-called notch-year baby who retired at 62 was not penalized, against the people who became 62 before then and retired at 62.

Another thing that should be realized factually is that the people born in 1917 to 1921, although they get significantly smaller benefits if they work beyond age 62 than those born before then, do not have a notch. If anything, the people born in 1917 to 1921 are a little better off than those reaching 62 later.

I think it is a terrible shame that this happened. I am convinced that nothing can be done at this time to remedy the situation.

FROM THE FLOOR. We have got a surplus.

Mr. MYERS. We do not have a surplus.

FROM THE FLOOR. You said it would be five times greater than intake.

Mr. MYERS. Such a large fund would be 15 to 20 years from now.

FROM THE FLOOR. We will be dead. That is what you are waiting for.

Mr. MYERS. I would close by repeating the parable from the Bible about the laborers in the vineyard. You who are Bible students, recall that all of the laborers in the vineyard got paid the same wage, even though they worked for different hours. Those who worked the longest hours still got a fair wage. Everybody is getting a good buy out of the system now, but some are getting much better than others.

I think that it is very unfortunate that the notch happened, but look at your benefits, and you will realize that you are getting reasonably adequate benefits considering your participation in the system in the past. That some are getting much more, I think, is unfortunate. As much as I would like to do, I have thought very hard over this problem, and how to solve it reasonably, and I do not think that there is any way to do it. I am sorry. Thank you, Mr. Chairman.

Chairman HEINZ. Would either Wilbur Cohen or Bob Ball care to add to that?

Mr. COHEN. I completely agree with Bob Myers in this sense that if you were to do it now, you would, in effect, have to raise the tax rates, and I think that that is an inappropriate thing to do at the present time. I feel like Bob does. I would like to find a solution, but the fact that there is going to be additional money 15 to 20 years from now does not help you a bit today. The alternatives are not there, I think.

Chairman HEINZ. Bob Ball, is it true that we would have to raise the tax rates to solve the notch problem?

Mr. BALL. If you are going to take the second solution, yes. It looks like it would be somewhere around a 30-percent increase in benefits for everyone into the future, and a 30-percent increase in costs on into the future.

I think there is a mistaken notion that somehow there is a limited group of people just beyond the place where this notch was created and that you can fix it for them and then everything would be OK. That is not the case. Everyone after that period is treated, just the same, and you have just created another notch if you did it, say, for the people who became 62 within 4 or 5 years after the time the notch was created. You would have to make a change for others who came later.

A 30-percent increase in the benefits of Social Security is a 30-percent increase in contribution rates, and I do not think that is feasible. I do not know whether there is any conceivable application of the sort of thing that Bob had advocated earlier that would still be relevant today, but I don't think so. I am afraid that we are stuck with the situation that benefits are somewhat higher than they should be ideally for a group of people who are now getting them and you would not want to do something about that. It does not help the people who came later to cut these benefits, obviously.

I think it is one of those things that we have to leave alone.

Chairman HEINZ. One last question from the audience.

FROM THE FLOOR. First of all, I want to thank you very much for this opportunity to come here, and I want to congratulate the people on the panel. Far be it from me to ever say that Social Security should not be used on our young, because they will be the people who will be running our country in generations to come, but I have to address this notch.

Now, in the first place, I have been working myself since I was 15 years old. I do not get when I retire as much Social Security as a woman who has never worked, for the simple reason that her husband has made more money and worked longer because my husband could not because of the job-related certain type of work that he did.

Now, the other thing I want to congratulate you, again, really, for bringing the notch up, because it has been the world's best kept secret.

Another thing, after a notch person reaches the age of 61, they continue to take the Social Security, but it is not credited to the person. Now, the Constitution says equality for all.

I happen to work in a department store. They didn't know I was on the notch committee, and two women were arguing. They had worked at the same department store for the same number of years at the same job, but because one woman was born in 1916 and the other was born 2 years later, she was going to lose $120, yet they had paid in the same system.

Now, the other thing that I find very hard to believe—and, by the way, we are having a parade today at the Convention Center for notches. It is countrywide. We are gaining a lot of support. We feel it is unconstitutional, and it actually is a basis for a class action suit against a certain group of people.

I mean, I want the Social Security to help anybody who needs it, especially the young children; but I don't think that you should say to this group, because we made a mistake, you people have to suffer and carry the ball. I don't want you to take anything from anybody, but educate these people who are getting more than they should to the fact that we have known for years.

Now, one of our colleagues calculated that he has lost $12,760 and has been retired for 62 months. We are not asking the Government to pay us retroactively, which I think is a tremendous thing.

I am still working. I am 65, and I am going to work until I'm 80, but they have asked me to be a spokeswoman for the group. I think you should really take this into consideration. The other thing I want to say, last, which I think is most important, what I cannot understand is when this mistake was made, were all the people—

and I have great respect for you, Mr. Heinz, especially for taking it away from the budget and making it a separate entity. I think it is the first thing in keeping it sound is to keep it by itself and not use it to mask the deficit. It cannot be worked that way.

I also think you should look into—and I talked to you on a talk show one evening about a woman who does not work. I have girlfriends who have never worked in their lives. They have never paid a premium into Social Security. Now, I have worked all my life. I was not rich enough that when I came home, I had a maid who was doing my work. I was working and ironing at night until 1, 2 o'clock in the morning because I chose that. Now, these women who have never worked, because they had husbands who were making more money, are getting more Social Security than I will get. I will be contributing for 40 years. Where is the justice?

You cannot tell me that you cannot overcome this notch, because it is most important if you do because you have a group of——

Mr. HEINZ. You have asked mighty good questions, and we have some mighty good experts here. Let's see what they say.

Mr. MYERS. I just want to discuss the class action suit as to earnings after age 61 not counting for benefits for people who were born in 1916 and afterwards. I must say that that is not correct. There are two ways for calculating benefits for people who reached 62 in 1979 through 1983, and they get whichever benefit is larger. People who reach 62 later only have one method, so that, as I said, the so-called notch babies have a slight advantage over those who come later.

Under one method, earnings after age 61 do not count; but under the other method of calculation, which usually gives a better result, earnings are counted for all ages after 61. As a matter of fact, for most people reaching 62 in 1979 to 1983, if they go on working until 65 or beyond, the second method will apply, which uses earnings during the entire lifetime up through and beyond age 61. In essence, what happens is that the high years of earnings after age 61 substitute for low years of earnings before then. That method is the only one that is used for people who reach 62 at any time after 1983.

So, I do want to point out that this is a definite matter of fact. Earnings after age 61 can be used in the benefit computation for all people. In some cases, mostly for people who retired very close to 62, the other method which does not count earnings beyond age 61, will be used because it produces a larger amount. So, before you get into a lawsuit on this matter, you should be certain that you understand the very complicated matter of calculating Social Security benefits.

Chairman HEINZ. May I just conclude the discussion on the notch by saying I do not like any of the answers we came up with, either. I do not like the idea of raising Social Security taxes, especially right now, because it would only add to the lack of public confidence that somehow Social Security is not financially sound. I do not like burning the people who got unintentionally large benefits, and I do not like the inequity of two people who have worked side by side, one getting $100 or $120 more or less than the other who worked at the same department store.

I do not like any of those solutions or alternatives. All I can say is I will continue to look for a satisfactory alternative, even if it is not any of those three prevailing alternatives.

I do not want to mislead anybody, but I do not intend to just say that there can never be any solution to this notch problem. I hope that is not the case. At the same time, I do not want anybody to think that we do not have some other extremely pressing problems. You yourself mentioned one of the earning sharing issues. Bob Myers mentioned people who really do not get any Social Security worth speaking about whose problems are even more severe, in one sense, than those of the notch babies. There are people, particularly the oldest of the old, the frail elderly, who, in a sense, are unprepared to face the fact that in reality Medicare does not do anything for you when it comes to long term care. Since more and more of our population is living to 80, 85, 90 and the chances of needing long-term care at the age of 85 are about 35 percent in favor of needing some form of continuing long-term care due to arthritis or Alzheimer's or some other chronic disease, it is going to be a terrible shock to most Americans, to a large number of Americans, and most Americans do not realize this. They think Medicare is going to solve their problems of health care in their old age. People who are over 65 know better, for the most part.

What we are currently living with is a system where people are literally pauperized. Spouses and entire families are pauperized because of the cost of long-term care, and they lose their home. They have to go on Medicaid, or, as some smart lawyers in New York suggest, just divorce your spouse of 20 or 30 or 50 years as one way to keep from following your spouse into the poorhouse.

We have a lot of problems, and it is fitting and proper on Social Security's 50th anniversary, to take note, not only of our successes, but the challenges that lie ahead. Each of you witnesses, in particular, have made a major contribution to this, and I think, again, our sponsors, Carnegie-Mellon University, and all of you who made this briefing, this hearing, a possibility and success today. Thank you all.

[At 12 p.m., the briefing was concluded.]

APPENDIX I

THE FIRST FIFTY YEARS OF THE SOCIAL SECURITY ACT, 1935–1985

(By Wilbur J. Cohen)

When President Franklin D. Roosevelt signed the Social Security Act in 1935, he prophetically called it the "cornerstone in a structure which is being built but is by no means complete . . ." In the fifty years which have passed since the Social Security Act first became law, many significant changes have taken place in the legislation, in socio-economic conditions, and in the role of the federal and state governments in tackling social problems, some of which the Social Security Act attempted to deal.

Today the Social Security Act is taken for granted as a basic part of the warp and woof of the "American way of life." But it was not always so. As in the case of any great social reform, there were many powerful influences prior to 1935 opposing the basic principle of public responsibility embodied in social security. Even at the present time there are influential groups in the community power structure who attack "the welfare state" in general but, in times of recession, highly praise "built-in stabilizers" and the "safety net" for their contribution to the resurgence of the economy, and the preservation of the free market economy.

To understand some of the past and current proposals, the controversial issues surrounding them, and prospects for future action, an examination of the developments of the program in the past fifty years is essential.

Perhaps no other single piece of social legislation concerned with domestic policy adopted in the past half century has been more far-reaching than the Social Security Act in helping to promote the well-being and happiness of the American people. Under one Act, there exists today programs of old-age, survivors, and disability insurance; a federal-state unemployment insurance system; federal payments to the needy aged, the blind, and the permanently and totally disabled; a federal-state system of maternal and child health, crippled children services, aid to families with dependent children, and child welfare services. It can be said unequivocally that the social security system of nationwide social insurance programs have become a permanent part of the basic fabric of the nation's social institutions, and that these programs have the support of many of the leaders of both major political parties and the overwhelming majority of the American people despite complaints about "welfare".

Fifty momentous years have been completed. Much has been accomplished in this time, more than many people expected when the limited program initially was established in 1935. The social security programs in the Social Security Act have been greatly expanded during 1939–1972. Incremental improvement have been the pattern of progress. The vision of the framers of social security act provided a basic structure which has been expanded and improved. Yet there are important gaps and striking inadequacies which still demand attention. As the program enters its second half century, what does the social security balance sheet show in terms of assets and liabilities? What changes in program emphasis are required to meet the challenges, the problems and prospects, in the decades ahead? What should be the role of social policy in coping with these issues?

Many questions such as these come to mind on the fiftieth anniversary of the enactment of the Social Security Act. As we look ahead and try to fathom the future, we can gain reassurance in the substantial achievements of the Act, past and present, and the bipartisan support in bringing these about.

SOCIAL SECURITY OBJECTIVES

The Social Security Act of 1935 was passed by the Congress, and became law on August 14, 1935, with the objective of meeting certain specific immediate needs and helping to prevent some types of future want and dependency. Through the federal-state partnership implemented by federal grants-in-aid, assistance became available early in 1936 under the federal-state program for needy persons in three groups of the population that, in good times as well as bad, have little or no capacity to earn their own living—the aged, the blind, and the children deprived of parental support or care through the death, absence from the home, or physical or mental incapacity of a parent. Longer range provisions of the Act were designed to provide insurance benefits for employees in commerce and industry that would furnish some income in old-age retirement and during limited periods of unemployments. These two insurance type programs did not begin to play a major role until after 1950.

The popular idea of "social security" has often given exclusive emphasis to the provisions of the legislation for the aged and to income maintenance. This is not a correct picture of the Social Security Act. It is highly significant that the original law also included grants-in-aid to the states for maternal and child health and child welfare services, public health services for the whole community, vocational rehabilitation services, and financial support for the expansion and maintenance of a nationwide employment service. The aid to dependent children (ADC) and child health (MCH) and child welfare (CWS) provisions of 1935, the survivors insurance provisions of 1939, the disability insurance law of 1956, and Medicare and Medicaid in 1965 illustrate the important role the family welfare has had in the original and subsequent development of the law.

During the fifty years, many important and far-reaching changes in the social security law and administrative organization have been made. Most of these have been beneficial—but not all of them. Since 1981 there have been more setbacks than ever before. But most of the far-reaching cutbacks proposed by the Reagan Administration have been blocked. On the whole, the changes from 1939 to 1972 reflected not only amendments to keep the program in line with rising levels in earnings and living costs costs and with administrative experience but also reflected a broadening character, scope, and concept of "social security." Retrogression occurred during the Carter and Reagan Administrations at the same time some important improvements took place.

INTEGRITY OF THE FAMILY

Over the years the social security program, step by step, has given increasing recognition to the significance of the family as a unit and the importance of family welfare. This trend is becoming more evident in some programs than others. There are also serious blocks to further progress in this area which require removal.

The public assistance provisions in the original law affirmed the importance of family life by limiting the use of federal funds for needy aged or blind persons to those who were not inmates of public institutions, and funds for needy children to those who were living in family homes in the care of one of a number of specified relatives. Moreover, the Act affirmed the dignity and responsibility of recipients by specifying that aid was to be given in the form of money which the receiver was free to spend as he or she deemed best for his or her welfare, rather than as aid in kind, such as orders for groceries or fuel, which too often reflected condescension and unwarranted suspicion of the recipient in past relief administration. These provisions resulted in the abolition of the "poor house" and the "work house"—features derived from the Elizabethan Poor Law of 1601.

The emphasis in old-age insurance was shifted from the individual to the family by the legislative changes made in 1939. Benefits were added for the aged wife and minor children of a retired insured worker and for family dependents of insured workers who die either before or after retirement. Insurance benefits to dependents and survivors were broadened and increased by the amendments of 1950, 1952, 1954, 1956, and 1958; disability insurance benefits were added in 1956; and Medicare benefits were added in 1965 for the worker and his spouse, age 65 and over.

Survivors insurance benefits, aid to dependent children, and child welfare services all are parts of the social security program designed to aid in preserving and strengthening family life. The capacity of ADC to safeguard family life was strengthened in 1939 when Congress increased the federal matching share from one-third to one-half, and again in 1950 when Congress provided that federal grants could be used in payments that include the needs of the mother or other relative who cares for the children as well as the children themselves. In 1961 and 1965 Congress added to needy children whose parents were unemployed. The Social Security Amendments of 1956 gave concrete expression to the need for services to preserve and maintain family life through the ADC program. The Older Americans Act of 1965 provided Federal financial aid to expand services to the aged. Such services, however, to both children and the aged, are still limited and are developing slowly. Title XX was added to the law in 1972 to provide basic Federal support for services to families.

The original appropriations authorized for maternal and child health, crippled children, and child welfare services were increased in 1939, 1946, 1950, 1956 (child welfare only), and 1958, 1967 and 1984. However, much more remains to be done to develop an effective and coordinated program at the federal, state, and local levels to strengthen the health and welfare of all families.

State unemployment insurance laws are an important part of the social security program that helps to maintain family income.

Unemployment insurance benefits not only keep families from lowering their standard of living unduly but reduce the anxiety and friction which inevitably result when no money is coming to pay the grocery and rent bills, insurance and medical expenses. Only about one-fourth of the states, however, recognize the importance of providing additional benefits where the unemployed individual has family dependents. The movement for including dependents benefits is not likely to make much further progress as long as unemployment insurance is currently financed almost entirely by employers and a preoccupation of varying contribution rates through "experience rating."

Originally unemployment insurance at the federal level was administered by the Social Security Board along with old age insurance and public assistance, with the objective of stressing the program interrelationships and common philosophic principles. However, in 1949 the federal administrative responsibility was transferred to the Department of Labor. Thus the unity of the social insurance programs so urgently hoped for by the sponsors of the 1935 Act was broken. Today, unemployment insurance is still divorced from the mainstream of social objectives and social insurance philosophy; its potentialities for preserving family responsibility and family integrity are still largely unrealized. Unemployment insurance needs a major revitalization.

Despite the limitations of existing programs, in countless homes insurance or assistance payments mean that an old couple can live out their remaining years together in a familiar setting, near their relatives and friends and with their cherished possessions—the old-fashioned poor house and work house has been abolished; that children in families broken by death or separation or impoverished by the breadwinner's disability can continue to receive their mother's care instead of being parceled out among relatives or left without supervision while the mother takes outside work; that many families in which earned income has been cut down or cut off by unenployment, disability, or old age have an assured income that they can use just as others in the community use their money, continuing to plan and to manage their own family affairs.

The billions of dollars paid out under programs established under the Social Security Act can be added, and so can the number of persons—old, young, the disabled, and in the working ages—to whom these payments have gone. What cannot be computed is the self-respect and peace of mind made possible by these programs in homes into which pay envelopes no longer come, the strain and worry and humiliation averted from parents and from children whose lives otherwise might have been scarred by the anxieties of their elders or by separation from home and parents. In the midst of just concern about the social maladjustments in American homes, it is well to remember the far greater number of homes where high standards of conduct have been upheld in the face of adverse circumstances, frequently with the aid of the modest social security payments and limited social services provided during the past fifty years.

While the social security program has done much to help in strengthening family life, there are vast problems still unmet and unsolved. There are still many low-income families with children. There is still a substantial amount of uncompensated wage-loss caused by sickness, disability, and unemployment. There are still delinquent, neglected, and deprived children. Aid to dependent children is still grossly inadequate. The Federal payments for AFDC are not indexed. Health, welfare, recreation, and other social services are not available to families in every community. Social insurance benefits are inadequate in some cases. Social objectives are subordinated to fiscal considerations in unemployment insurance. Medical care of high quality if not actually available to all who need it. These are some of the unfilled needs and controversial areas with which social policy must deal in the decade ahead.

THE HUMAN ELEMENT

Program developments in social security have been the product of many complex social, economic, political, financial, and legislative changes. But these factors operated only through the medium of particular human beings with their special capabilities and limitations who took responsibility and leadership for conceiving, achieving, and administering these changes, often under great handicaps. We must never forget the important role in the evolution of social legislation play by responsible and dedicated men and women, politicians, social workers, social reformers, and administrators. Mr. Justice Holmes expressed the thought which is particularly pertinent to social legislation, that the inevitable only comes to pass through the effort of human beings.

The roster is long of those who ideas and energy made a significant contribution to the progress of Social Security in the past fifty years. First Franklin D. Roosevelt, then Harry S. Truman, and later Dwight D. Eisenhower, John F. Kennedy and Lyndon B. Johnson gave leadership and support to Social Security in their recommendations to the Congress. Among the Congressional leaders were Senators Robert F. Wagner, Pat Harrison, Walter F. George, Robert W. Kerr, and Eugene Milliken; Representatives Robert L. Doughton, David Lewis, Jere Cooper, Wilbur D. Mills, Robert W. Kean, Claude Pepper and Speakers McCormack and O'Neill, all played a key role in translating general ideals and policy into specific legislation. Frances Perkins, Harry Hopkins, and Edwin E. Witte were the pioneers in developing the original legislative program in 1934. Arthur J. Altmeyer was not only a key person in the development of the original legislative program but, through policy formulation and administration—as a member, then Chairman, of the Social Security Board and Commissioner of Social Security for eighteen years (1935–1953)—he set the basic patterns which made the program a working reality. Aided by John Winant, J. Douglas Brown, Murray Latimer, George E. Bigge, Mary Dewson, John Corson, Robert M. Ball, Robert J. Myers, I.S. Falk, Ida Merriam, and Alvin M. David the program was established on a sound administrative basis with widespread community support. Oveta Culp Hobby, as the first Secretary of Health, Education, and Welfare, and her Under Secretary, Nelson Rockefeller, endorsed the principles of social security and advocated the strengthenng of the existing system in 1954, rejecting proposals by business, insurance, and Representative Carl Curtis that many persons feared would have altered the basic principles on which the social security has been developed.

William Green, George Meany, Philip Murray, Walter Reuther, Lane Kirkland, Nelson Cruikshank, Katherine Ellickson, Bert Seidman and Larry Smedley as the representatives of Labor, have made significant contributions to the program. The American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) has been a major force, formulating proposals and helping to obtain passage of key amendments. Abraham Epstein, John B. Andrews, and I. M. Rubinow, through their patient educational work over many of the years, especially in the 1920's helped create the changed climate of public opinion which made possible the passage of the original Social Security Act. Gerard Swope, Marion Folsom, Walter Teagle, Morris Leeds, and Sam Lewisohn were among the businessmen of vision who, as members of the first Advisory Council on Social Security in 1934, helped the institution get started.

John Tramburg, Charles Schottland, Loula Dunn, Ellen Winston, Katherine Lenroot, Elizabeth Wickenden, Jay Roney, and many other men and women in public welfare administration have helped in building the program at both the state and federal levels. State public welfare personnel and the American Public Welfare Association and social workers, and the National Council of State Welfare Administration have played an active and important role in urging the continuing extension of social insurance and the efficient and humane administration of all social security programs.

Marion Folsom, Arthur Flemming, Eliott Richardson, Anthony Celebreeze, Abraham Ribicoff and John Gardner have been Secretaries who supported the principal of social insurance.

Many other persons and groups could be mentioned who have played an important part in establishing, improving, administering, or interpreting the social security program. The list would be long and impressive. The purpose of selecting some of the names for mention is to remind us of the many different people who contributed to a program that has been characterized as "no longer an experimental innovation but has become an integral part of our economy." Young men and women today in state and federal programs, in schools of social work, in local employment security and welfare agencies, have an opportunity to contribute to improving the program.

Some groups have opposed some proposals. Business groups, insurance companies, and the American Medical Association have been in the forefront of opposition to particular measures and supporting alternatives. Governor Landon and Senator Curtis urged that it be made a Federal "baby Townsend" pension plan. Governor Reagan and Representative Gerald Ford opposed Medicare. It must be kept in mind, however, that social legislation is the product of the consciousness of social needs, conflicting points of view, intense controversy, cooperation among various groups, compromise, and timing. The original Social Security Act and its amendments illustrate these forces at work in the crucible of hard reality. Many persons will find fault with particular provisions of the legislation, but, as a whole, they are a blending of many points of view represented in our complex, diverse, and changing economy.

THE POLITICAL ELEMENT

Nine Presidents have been in office during the past fifty years; five Democrats and four Republicans. There have been twenty-five Congresses during this time. While all nine Presidents have supported the principle of social security, major cutbacks have been proposed only by President Reagan.

President Reagan opposed Medicare in 1964; recommended that social security be made voluntary; and on May 12, 1981 recommended major and far-reaching cutbacks in social security which were rejected by Congress. While President Reagan approved the 1983 compromise bill which passed the Congress, he insisted on cutbacks in benefits between 1981-1985.

While various Congresses have been very constructive in many instances with respect to social security legislation, their record is not 100 percent. In 1935, at the initiative of the Senate, they included "experience rating" in the unemployment insurance program which has seriously distorted the benefit and financing structure. They repeatedly refused in 1949, 1969, and 1979 to enact welfare reform. In 1983 they changed the future terms and conditions of eligibility by raising the retirement age eventually from 65 to 67. Other backward steps could be enumerated. The fifty year span demonstrates that it is best not to rely solely on the Executive or Legislative Branch but on both competition, cooperative and compromise between them.

What is possible in social legislation at one moment of time is not always possible at another. Disability insurance, for instance possibly could have been enacted in 1935 along with the original law. But it wasn't ready in time The disability insurance provisions passed by the House of Representatives in 1949 might have passed in 1950 if Senator George had supported it. But he didn't. But it passed in 1956 with an age limitation of 50 years largely because Senator George changed his mind and, as his last important act as a Senator, made it a major policy issue, with the help of Senators Lyndon Johnson, Robert Kerr and Earle Clements. Thus, it finally passed, after seventeen years of work, with the help of many persons and groups who had to overcome a strong coalition of forces (business, insurance, medical, and the then President and Secretary of Health, Education, and Welfare) opposing social security legislation in its history.

Medicare took fifteen years (1950-1965) to become law. It too was opposed by powerful groups—the AMA, business, insurance and other groups.

The record of the first fifty years of social security is a proud heritage for the many thousands of persons engaged in the administration of the programs. There are, however, frontiers still to be conquered. The remainder of this article attempts to summarize the present status of the social security program and to indicate some of the areas which need attention.

EXTENSION OF INSURANCE COVERAGE

Just prior to the 1950 amendments, old-age insurance was a relatively small program. Benefits at that time averaged only about $26 a month for a single retired individual. Total disbursements under the program in early 1950 were running at about three-quarters of a billion dollars annually. And the number of persons receiving old-age assistance on needs test basis exceeded the number of aged persons drawing old-age insurance up until 1951.

Congress made a vital decision in 1950 to reaffirm the basic principle that a contributory system of social insurance—is the most satisfactory way of preventing dependency. It decided that old-age and survivors insurance really would be the first line of defense in meeting the income-maintenance needs of retired aged persons. By 1951, the number of aged persons receiving old-age insurance had exceeded the number receiving old-age assistance. The reiteration and extension of the 1950 policy in 1954 by a Republican Administration, after careful study and review of the controversies of the previous eighteen years, enabled the system with bi-partisan acceptance to accelerate the performance of the far-reaching role set out for it by Congress in 1950.

Today, old-age, survivors, and disability insurance (OASDI) is the largest and most important social insurance program in the United States, dwarfing any other social insurance program and even the veterans' programs. In 1985, 37 million persons were drawing benefits and 125 million persons contributing to it. In protection afforded to individuals and their spouses, it exceeds the coverage and protection of all private pension plans in the United States. In protection afforded to widows and orphans it is equivalent to the face value of all the private life insurance protection in the nation. In protection afforded to the permanently totally disabled it exceeds the coverage and protection of private insurance. Moreover, it does all this in a way which has not adversely affected initative, thrift, or voluntary pension or life insurance plans, has preserved emphasis on self-responsibility and wage differentials, and has operated at the phenomenally low administrative cost of only one and one-quarter percent of disbursements, while paying benefits on an efficient basis without any taint of political manipulation or major scandal.

A group of business executives appointed in 1957 by the Secretary of Health, Education, and Welfare surveyed the operations of the Bureau of Old-Age and Survivors Insurance. They found that the Bureau is "carrying out its mission in a sound and vigorous manner" and commented favorably on their "impression of both efficiency and friendliness created by the typical OASI district office."

Since 1981, however, the program has been subject to ideological and administrative miscalculation by the Reagan Administration, especially the disability portion of the program. The quality of service has declined.

The studies by the Committee on Economic Security in 1934, preceding the establishment of the social security program, recognized that the risk of loss of livelihood in old age was so nearly universal that the coverage of the old-age insurance program should be as broad as possible. Administrative considerations, however, dictated the decision to cover only employees initially in commerce and industry at the start. These were groups for which wage reporting and collection of contributions could be organized with less difficulty than in such excluded areas as agricultural employment, domestic service, and self-employment, even though it was recognized that workers in these and other excluded fields also needed protection because of their generally low earnings and irregular employment.

Administrative considerations were of particular importance at the start of the program because the American insurance system relates benefits to individual earnings and hence keeps an individual record of covered earnings for each of millions of workers throughout their working lives. Some pessimists predicted that such a system could not be maintained at all or, if so, only at exorbitant cost. They urged that uniform benefits be paid to everyone in the program. Despite those predictions, payments of benefits, including the added benefits for dependents and survivors, was started at an earlier date than had been scheduled initially, and the system has continued to operate efficiently and economically as coverage and benefits broadened, demonstrating the feasibility of operating a vast public program efficiently and economically and, at the same time, with courtesy and individualization.

In 1950, coverage was extended to most urban self-employed persons (except certain classes of the professional self-employed), to regularly employed agricultural and domestic workers, and, on a voluntary group basis, to lay employees of nonprofit organizations and to many state and local government employees. In 1954 Congress further amended the OASI program making it possible for coverage to be extended to some 10 million persons who, at some time during a year, have earnings as farmers or in previously excluded jobs in agriculture, or in domestic service, and to additional groups of state and local governmental employees, and persons in other employments. In 1956, military service was covered under the program on a permanent contributory basis and 850,000 additional jobs in other groups were included. Other groups were added in 1983. With these major extensions, coverage or substantially all gainful work in the United States is within sight—a goal that seemed politically and administratively unattainable forty-five years ago. There are still some other big hurdles to overcome in disability and health coverage.

BROKEN FAMILIES

The addition of survivors benefits to the federal old-age insurance program in 1939 gave the system new meaning for American families during, as well as after, the breadwinner's working years. Together, private life insurance and the survivors insurance provisions of OASDI protect American families against a risk which in the early part of the century was the major cause of dependency and want in the United States.

The survivors benefits brought an important and needed protection for aged women who commonly outlive the husbands whose earnings have been the chief source of family livelihood. Even more important in terms of the numbers of persons concerned and the social potentialities, survivors benefits assured continuing income for the children of insured workers and the mothers of these children in the event of the worker's death. This protection of childhood is especially important in that it is ordinarily established in the early years of family life, when parents have had little time or opportunity to build up other resources against the catastrophe of loss of family support by the breadwinner's death.

Within a few years after the survivors insurance benefits were established, the number of fatherless children receiving insurance benefits began to exceed the number of fatherless children receiving aid to dependent children. At the end of 1984, there were about seven times as many fatherless children receiving survivors insurance benefits as were receiving such payments from the aid to families with dependent children program.

In December 1934 there were about 2.8 million fatherless children under age 18, 7 percent of all children under that age. Over 95 percent of the nation's children under age 18 are insured by public programs against loss of support by the parent's death. Along with private life insurance, poverty due to death of the breadwinner has largely been overcome!

While orphans were declining in number and insurance payments were reaching an increasing proportion of them, the number of families broken by marital difficulties or the absence of marriage had been on the rise. In consequence, the need for assistance to such families was increasing and a progressively larger portion of the AFDC caseload comprises those who had been deprived of normal support or case because of the continued absence from home or the incapacity of either parent. This trend is likely to continue and to present a serious problem requiring increased attention of welfare personnel, public and private.

An important improvement in the program occurred in 1961 when President Kennedy recommended the inclusion of needy children whose parents were unemployed. Congress, however, refused to make this provision mandatory on the states. The House Committee on Ways and Means recommended in 1984 that this segment of the program be mandatory on the States. This would be an important forward step.

OLD AGE SECURITY

At the end of 1936, about half to three fourths of all persons age 65 or over were estimated to be mainly or wholly dependent on relatives and friends for their support. Except for the development of the public income-maintenance programs for the aged, the burden of such dependency would have continued as the aged population grew.

The great gain over the fifty years in assured old-age income has been through the development of social insurance and related programs. In December 1934 only about 5 percent of the aged received payments under the programs of these types in existence—public employees' retirement systems and veterans' pension and compensation programs. Fifty years later, nearly every person reaching age 65 is eligible for old age insurance.

The expansion of OASDI has not adversely affected private insurance for old age, survivorship (Life insurance), for disability. Private provisions for old-age retirement have grown spectacularly in the past 35 years. Despite the progress made, there is still need for many improvements in the OASDI and SSI programs. Benefit amounts are still too low in many instances. Combined adjustments to increased earnings and prices are essential. Medical needs of any older and disabled person are unmet. These problems remain to be solved in the years ahead.

MEDICARE

The movement for state-by-state health insurance plans which began in 1912 did not find much support during the following 25 years. Then with the U.S. Supreme Court decision in 1937 upholding the constitutionality of Federal old-age insurance, the movement was transformed into proposals for national health insurance beginning in 1941. By 1950 these latter efforts were stalled by the opposition of the AMA. As a result, a more limited proposal for national health insurance for only the aged—Medicare—was proposed. It took 15 years of vigorous opposition and support for this idea to be adopted in 1965. Presidents Kennedy and Lyndon Johnson strongly advocated the idea. With Johnson's overwhelming election in 1964, the plan called Medicare became a Legislative reality. A limited welfare plan for needy aged, blind, disabled and children called Medicaid also was enacted at the same time. After 53 years of political action the United States opened up the door of public policy into controversial care policy issues.

Today, after twenty years, the Medicare program also includes many disabled persons including specifically persons in renal dialysis and who need kidney transplants. Approximately 30 million persons are included in the program. A number of changes were adopted in 1981–1985 but support for the program prevented any large scale cutbacks or restructuring of the program. The AMA currently supports the program it previously condemned as socialized medicine.

UNEMPLOYMENT INSURANCE

To replace part of the earnings lost by jobless workers, the Social Security Act established a federal-state system of unemployment insurance in 1935. A tax-offset device in the federal act effectively encouraged the individual states to set up their own systems under broad federal standards. Whereas only Wisconsin had an unemployment insurance law at the beginning of 1935, all jurisdictions had such legislation by the middle of 1937. Employer contributions began in 1936 in half the states, and benefits first became payable in all states by the summer of 1939.

The protection of the program grew as employment expanded and many states extended coverage beyond the original federal provision (establishments employing eight or more). But as the economy swung into an all-out war effort, the role of unemployment insurance changed. Unemployment dropped to an unprecedented low in 1944, and benefit payments served to tide workers over during short periods of unemployment resulting from conversion from civilian to military production and from one type of war work to another.

Unemployment Insurance contributed immeasurably when the war ended in smoothing the transition to peacetime production, cushioning the impact of mass layoffs from war plants in 1945 and 1946 for the individual and also the economy.

The federal-state unemployment insurance program did not have to bear the full brunt of the postwar economic readjustment. In anticipation of the effect of mass demobilization in adding millions of returning servicemen to the already expanded Labor force, Congress enacted the servicemen's Readjustment Act in 1944. Of the 15 million World War II veterans, more than 9.5 million filed unemployment claims for "readjustment allowances" under the Act in the five years ended August 1949. Their benefits during that period totaled $3.8 billion paid out of general revenues. More than $1.5 billion was paid in servicemen's readjustment allowances from general revenues in 1946 while only $1.1 billion in benefits was financed under the regular state unemployment insurance program.

The several recessions of 1949–1950, 1953–1954, and 1957–1958, and 1980-81 tested the ability of the program to cope with sudden and widespread unemployment. Again unemployment insurance played a constructive role as it has in a variety of economic climates. However, experience during each of these periods demonstrated that the federal-state unemployment insurance did not afford sufficient protection to unemployed persons and their families during a recession.

The weaknesses in the federal-state unemployment insurance system thus were clearly demonstrated by the emergency federal legislation in the 1959 recession for loans while there were substantial over-all reserves.

Both the coverage and duration of unemployment benefits have been improved by the states during recent years. State unemployment insurance laws have been broadened to include smaller establishments. In 1954, Congress amended the federal law to extend coverage to covered employers with four or more employees and to federal government employees. Provision was also made for a loan fund of $200 million to assist states whose funds run low. Not all states, however, provide benefits for even a uniform duration of 26 weeks, nor have weekly benefits in all states reached at least 50 percent of the workers' gross earnings in covered employment. A number of states, however, improved their laws in the face of a threat of federal standards and it is not likely that continued progress will be made in improving the benefit structure of the program in the immediate future. Whether the states can and will achieve satisfactory protection without additional federal benefit standards and a federal reinsurance fund remains a challenging and controversial issue and an imperative necessity.

DISABILITY PROTECTION

From the outset, the social security program has recognized the individual and social importance of meeting risks of sickness and disability, not only in the provisions for services for maternal and child health and for crippled children but also in those for assistance to the needy blind and to children whose need arose from the parent's physical or mental incapacity. In 1950, resources to counter needs arising from disability were augmented by the establishment of federal grants for public assistance for needy adults who are totally and permanently disabled. In 1952, Congress first enacted a "disability freeze" provision in the insurance program but it did not become operative. Then, in 1954, Congress made the provision effective. Periods in which a worker has been totally disabled, as defined in the law, are omitted in computing his insured status and the average earnings on which his eventual benefit and benefits to his dependents or survivors are based.

A program of cash benefits for periods of extended total disability passed the House of Representatives in 1949 but failed of enactment. Legislation to provide cash benefits, as part of the Old-Age and Survivors Insurance system, to insured persons totally disabled for an extended period of time beginning at age 50, was enacted into law in 1956. This was an important step in the development of social insurance. The disability insurance provisions were adopted in 1956 in the Senate by a close vote of 47 to 45 after a vigorous debate and controversy. What originally began as a limited old-age insurance system in 1935 became a broad social insurance program by 1956, covering three major risks. A new dimension had been added to social institutions in the United States with the addition of Medicare in 1965, a fourth component was added.

Public provisions to offset the actual or potential was loss among disabled persons and their dependents have been extended in recent years. In 1935, protection through public programs was confined to work-connected disabilities under state and federal workmen's compensation laws, to service-connected nonservice-connected disabilities under the veterans' and armed services programs, to sickness and disability under programs for employees of federal, state, and local governments, and to special programs for the blind in about half of the states.

Since that time, in addition to disability insurance in OASDI, both permanent and temporary disability benefits have been provided under the railroad retirement system, and temporary disability insurance programs have been adopted for industrial and commercial workers in only five States.

Private provisions against the risk of extended disability have expanded in recent years, especially in connection with private plans under collective bargaining, but the number of workers with such protection is still relatively small. More extensive has been the growth of private protection against the risk of temporary disability, the development of voluntary cash sickness plans, and the widespread purchase of individual and group disability insurance. This has resulted in strong and continued opposition to public legislation for temporary disability from business and insurance groups. Disability insurance continues to be a controversial area of social security legislation. The recent mishandling of disability insurance by the Social Security Administration was a dismal development in an otherwise long history of administrative excellence.

PUBLIC ASSISTANCE FOR THE NEEDY

For government to assume financial responsibility for the needy was not a new principle in the United States. Since the early colonial days, following the tradition of the Elizabethan poor law of 1601, local units of government were responsible for providing assistance and medical care to the poor. But they generally lacked the financial resources with which to carry out this responsibility adequately. As a result of social and economic forces, first state and then federal financial aid became necessary to supplement the financial resources of the locality to provide cash assistance and medical care to the needy.

The original Social Security Act of 1935 provided that the federal government share only in "money" payments made to the needy aged, blind, and dependent children receiving public assistance. This was done to discourage the states from issuing grocery and rent orders and to encourage a sense of responsibility on the part of the recipient in his use of assistance payments. This resulted in a tremendous improvement in welfare standards and is one of the great achievements of the 1935 Act. Medical needs could be included as one of the items in the budget for needy individuals but the money payments had to be "unrestricted" in their use. Hence, there was no federal reimbursement to the states for direct, or "restricted," payments they made to "vendors" (that is providers) of medical care, such as physicians, dentists, nurses, hospitals, or druggists.

In amending the law in 1950, Congress narrowly limited the federal financial share for direct payments for medical care to that portion which, when added to the regular money payment to the individual, did not exceed $50 per month for adults. The maximum for adults was increased to $55 per month per individual, and to $60 in 1956 and to $65 on the average in 1958. Other maximums were provided for dependent children.

In 1956, the law was amended to provide a specially ear-marked arrangement for medical care ($6-$3 matching plan). Outside of, and in addition to, whatever federal funds were available for money payments to needy individuals, the federal government offered to share in state payments to the vendors of medical care. The federal government, however, limited its financial responsibility in both cases by setting up certain maximums beyond which a state could not claim reimbursement. These provisions were very substantially changed and improved by legislation in 1958 in two respects:

(1) The maximums in the federal law on the payment to the recipient, and on the vendor expenditures made in his behalf in the form of medical care in which the federal government will participate were combined into one average maximum for all recipients in a state, which maximum is applicable to the entire assistance expenditure, including both money payments and medical care. For old-age, blind, and disability assistance, this maximum was placed at $65 a month. For dependent children, the maximum was placed at $30 a month per individual receiving assistance.

(2) The federal share was determined in part by the relative fiscal ability of the state as measured by state per capita income.

The federal share of assistance expenditures for the aged, blind, and disabled was continued at four-fifths of the first $30 of the average monthly assistance expenditure. For children, the federal share was continued at fourteen-seventeenths of the first $17 of the average monthly assistance expenditures for individuals receiving aid. Federal participation in the assistance expenditures made above these maximums (but within the over-all limits determined by multiplying by $65 the number of persons receiving old-age, blind, and disability assistance each month and by $30 the number of persons receiving ADC each month) is increased above the previous 50-50 matching for the lower income states.

Federal participation in such payments is 50 percent for states whose per capita is equal to or above the per capita income of the United States, ranging upward to 65 percent for states whose per capita income is below the national average.

Changes in 1958, 1960 and 1965 were the result of protracted efforts to improve public assistance. Still further changes are needed. Federal sharing in all general assistance so that assistance can be given solely on the basis of need are of special concern. The absence of health insurance coverage protecting the lowest income groups in the population may require additional funds and program planning in public assistance.

SUPPLEMENTAL SECURITY INCOME (SSI)

A major restructuring of assistance to the needy aged, blind and disabled occurred in 1972 when Congress transformed the federal-state programs for these three categorical groups into a federally financed and administered program (SSI). The Federal Government established a national minimum income for these three groups. At the end of 1984, there were about 4 million persons receiving assistance under this program (SSI) of which 1.5 million were aged and 2.5 million were blind or otherwise disabled. Since 15 percent of all the aged have incomes below the federal poverty threshold, further improvement in the SSI program is essential. It would take about $4 billion in 1983 to bring all aged persons up to the poverty line.

In 1960, the program was further modified by enactment of the Kerr-Mills Law providing Federal grants to the states for medical care for the needy aged. This program was superseded in 1965 by Medicaid.

INCREASING EMPHASIS ON PUBLIC WELFARE SERVICES

Services to individuals and families have become increasingly important in all aspects of the social security program as a major means of preventing or mitigating economic and social insecurity. Close coordination of services and benefits have always existed in the employment security program. Workers who claim unemployment benefits must report and register for work at public employment offices, thus initiating efforts that may get them what is better than a benefit—a new job. The employment service aids in counseling and placing workers, giving particular attention to handicapped persons, older workers, new entrants into the labor market, and other workers requiring special service. Increasing attention is being given by the employment service and other community agencies to services for older persons.

The enactment of the disability insurance program recognized the importance of rehabilitation services by providing for the referral of disabled persons to state vocational rehabilitation agencies. These agencies will be in an increasingly better position to recognize and aid, frequently in an early phase, persons for whom appropriate medical and vocational counseling may prevent more serious disability or restore working capacity. There is similar collaboration between the state public assistance and vocational rehabilitation agencies in locating and assisting incapacitated assistance recipients.

WELFARE REFORM

Both liberals and conservatives strongly advocate welfare reform but cannot agree on the details to accomplish this objective. Over the past 30 years there have been three unsuccessful attempts by three Presidents—Truman, Nixon and Carter—to restructure the American welfare system.

President Truman in 1949 proposed a federal-state system of comprehensive noncategorical assistance to the needy including intact families. The Congress rejected the proposal but added the category of the disabled in 1950 to the categories of the aged, blind, and dependent children.

President Kennedy decided not to recommend a frontal attack but to propose an incremental change by expanding aid to dependent children to include the needy children of unemployed parents. This plan, adopted in 1961, was permissive with the states and has remained permissive despite several attempts to make it a required part of state programs.

President Nixon in 1969 proposed a comprehensive reform, the Family Assistance Plan (FAP) which passed the House of Representatives but failed of adoption in the Senate due to the combined opposition of liberals and conservatives and the opposition of the Welfare Rights Organization.

President Carter tried to push through Congress a revised version of the Nixon plan but he too failed.

The obvious conclusion of these experiences is that an incremental rather than a comprehensive approach is the only likely possibility. Broadening the coverage of AFDC to include intact families (but excluding students and possibly homeless migrants) and requiring states to cover all persons with incomes below a given threshold (x% of the national poverty guidelines) are minimal increments. President Truman's proposal of 1949 is still worth considering.

MATERNAL AND CHILD HEALTH

The maternal and child health (MCH) and crippled childrens' (CC) programs were included in the 1935 Act and the authorizations and appropriations have been increased over the 50 year period. Whereas the MCH program was extremely controversial in earlier legislation during 1921-1929 (the Sheppard-Towner Act), the AMA has been supportive of this legislation since 1935. Pediatricians, particularly, have been most constructive in their evaluation and practice in this program. As in the case of Medicare and Medicaid, most of the objections made initially by the organized medical profession did not have any reality to them.

The MCH program has been a contributor to the reduction in infant and maternal mortality. The CC program has made it possible for most crippled children in the United States to receive medical care for their disabilities. These programs administered by state health departments with financial aid from the Federal Department of Health and Human Services demonstrate as in Medicare and Medicaid that medical care can be financed by government without creating "socialized medicine."

MEDICAID

The Kerr-Mills Law of 1960 provided federal grants to the states for medical services to needy aged persons. Senator John F. Kennedy was nominated for President in 1960 with Senator Lyndon B. Johnson as his vice-president. They endorsed an insurance approach to financing medical services for the aged by the Federal Government.

Finally when Medicare was adopted in 1965, a restructuring and broadening of the Kerr-Mills Law was included in a plan called Medicaid in order to distinguish it from Medicare.

The Medicaid law was based on Federal grants to the states but in addition to the aged included dependent children, the blind and disabled. It set out a minimum number of medical services which a state plan must cover but left the definition of "needy" up to each state. Thus, the Medicaid program today varies widely among the states in the proportion of poor persons covered and the scope of medical services covered. As of 1985, about 22 million persons as eligible for Medicaid of which 3 million are aged, 10.8 million are children, 3 million are disabled, and 5.5 million are adults in families with dependent children. A major need exists to provide a minimum federal standard of income eligibility, required inclusion of the medically needy, and a broadened scope of services. In view of the fact that there are millions of persons in the United States without any health insurance, and other millions without adequate health insurance, it is essential to develop some method to assure coverage of such person preferably under an insurance arrangement but if this is not achieved then the broadening of Medicaid is imperative as a transitional device.

NATIONAL HEALTH INSURANCE

The issue of national health insurance of some kind has been a perennial issue in American social policy. It remains in the background as a pressure for broadening of existing programs both public and private. The fact that there are many persons without any private health insurance and many have inadequate insurance is a compelling argument for some Federal legislation to reach the objective of universal and comprehensive coverage.

The widespread existence of voluntary health insurance coverage has been an impediment to the seventy year search for a method to attain universality and comprehensiveness of scope of services. The role of many organizations with a financial interest in health policy results in numerous influential sources of opposition to an increase in the Federal role in health insurance policy.

Since the residual responsibility for the sick has been a traditional responsibility on hospitals, physicians, counties, and the states, this results in state patchwork legislation to meet needs in a period when medical costs are rising more rapidly than the general cost of living. Yet, the continuing rising cost of medical care is the most provocative pressure for federal intervention in cost-constraint and coverage plans.

Health and medical care expenditures rose markedly in the past fifty years. During the period 1929–1935 such expenditures totalled slightly in excess of 4 percent of the gross national product. By 1985 they had reached nearly 11 percent. With an increasing proportion of aged persons in the population it is possible that such expenditures may reach 12–13 percent by the year 2000.

LOOKING AHEAD

The insurance, assistance, and social service provisions have all been broadened and strengthened between 1939 and 1980 by the extension to additional groups of the population and additional risks, and by improving the scope and adequacy of benefits. The improvements have not followed any simple formula or pattern. Various provisions were adopted at different times to meet emergent situations or the specific needs of groups whose insecurity had gained public recognition. In addition, total payments under the programs have changed as programs matured and the needs of the economy changed. During the early years of the program, public assistance payments were by far the most important expenditures. During the immediate postwar years, and in the recent recessions, social insurance benefits were of importance.

Many people believe the social security program is bankrupt. It is not. In January 1985 the assets of the Social Security fund totalled $59 billion made up as follows:

(In billions of dollars)

Fund:	*Assets*
OASI	25.0
DI	6.5
HI	17.8
SMI	9.8
Total	59.1

Social insurance in the United States does not now cover adequately all major income risks that threaten the economic independence of families. Some individuals, because of incapacity or other circumstances, do not participate in the labor force to a sufficient extent to acquire rights to any benefits to all or to benefits in an amount sufficient to meet their minimum needs. Because important groups were excluded from the system prior to 1950 and 1954, many persons were not covered by the insurance program. For these reasons, public assistance and welfare services will continue to be a necessary supplement to social insurance, but the aggregate of social security payments should continue to be made up increasingly of the payments made under social insurance programs and decreasingly of payments under public assistance.

Skilled services of many types may alleviate suffering, restore partial or full economic independence, and in many other ways contribute to a more useful and satisfying life. State and local public welfare agencies in recent years have been struggling to broaden and strengthen the social services they provide to children, to families, to aged persons, and to the disabled. There is every indication that as social insurance meets a larger proportion of the cases of economic need, a larger proportion of the cases on the assistance rolls will require individualized services and the use of both a professionally trained and untrained staff.

No area of services relating to social security is more important and more fraught with challenging issues than that involving the well-being of children and families. The AFDC rolls are heavily weighted not only by dependency due to the parent's incapacity but also, to an even greater degree, by family breakdown resulting from desertion and other marital difficulties. Skilled services might have prevented and might solve many of these problems, opening the way to a more satisfactory life for both the children and adults concerned and lightening the burdens on taxpayers. Progressive development of services for children continues to be a major area of concern in meeting the needs of children and parents in both the present and future. Consequently, additional funds and emphasis on training research becomes imperative.

A key argument of those who criticize or oppose some aspects of social security, welfare, or the safety net is that it discourages work, thrift, or initiative. There is always an anecdotal illustration. But every meritorious aspect of life probably contains a counter evil. Marriage often results in divorce; parenthood can result in spouse or child abuse; the desire for money breeds those who rob banks or forge checks; our free enterprise system enables bribery, monopoly, and the sale of alcohol, cigarettes, and drugs to tax our health care system. Curbing excesses in any human institution is a continuing responsibility. But the wholesale abolition of an institutional framework in the safety net is no more appropriate than the abolition of the banking system because of robbers or defaulting banks or the hospital system because more people die in hospitals than in movie theatres.

Viewed in the large the American safety net is not all public, not all private, not all compulsory, not all voluntary. It is financed and administered in various different ways. It is a pluralistic system, more like a mosaic than a well fitted jig saw puzzle. Consequently, it is fragmented and complex and thrives on reams of paper, eligibility differences, gaps and overlaps. It could be simplified and streamlined. There are holes in the safety net which need repair.

Many books and articles criticizing the present system continue to be published. This is not difficult to do. Proposals for radical changes in one or another part of the system have been given wide publicity during the Reagan Administration. Attacks on Federal spending and the Federal role, with frequent reiteration of the desirability of expanding the role of the free-market, the state, or voluntary efforts make excellent rhetoric and media headlines but do not result in any substantial improvement of the safety net.

Social reform of great consequence seems to come and go in the United States in cycles. These cycles seem to be about 30 years apart. The agrarian-populist movement in the US began around 1870–75 and was followed by the movement for workers' accident compensation and mothers' pension laws in 1905–1910 with the establishment of the Food and Drug Law in 1906 and the Children's Bureau in 1912 and the movement for state health insurance commissions.

World War I and the post-war return to normalcy broke this remarkable pre-war beginning. Then the depression of 1929 sparked the passage of the Social Security Act of 1935. The next big change came in 1965 with enactment of Medicare and Medicaid.

The 30 year cycle is not exact or magical, but it offers some insight into the manic-depressive manifestation of political action in social reform. We may simplfy the process like this:

1. Jacksonian radicalism, 1828–1830.
2. Abolition of slavery, 1862–1865.
3. Agrarian & Populist revolts, 1880-1910.
4. Social Reform (mothers' pensions, etc.), 1905–1912
5. Social Security Act, 1935.
6. Medicare and Medicaid 1965.
7. Unknown, +/1995

One of the objections to the establishment of the basic social security program in 1935 was that it might adversely affect existing private pension plans and the future establishment of such plans. This prediction turned out to be erroneous as have other fears about the program. Today, there are thousands of private pension plans covering million of workers which are based upon the basic floor of protection incorporated in the social security program. The public-private relationship has been soundly conceived and implemented.

As far as survivors insurance is concerned the life insurance industry has always been supportive of this feature of the social security system. They have used the basic social security protection to enable their clients to purchase additional private coverage. As a result, death of the breadwinner is no longer a major cause of poverty or dependency in the nation. There is no question that this area demonstrates a most effective and satisfactory public-private cooperation in the safety net area.

This review indicates that there are still many areas which remain to be explored in the search for methods of strengthening existing social security programs, public and private. During the next fifty years we may expect important and dramatic changes in the economy: Population will continue to increase; we may expect the nation to have more children, more aged persons, and more working women. It is reasonable to expect continued technological advances and hence increases in national productivity and the standard of living. Social security programs will have to take account of these changes and of the many new problems which are bound to arise.

Social security is now part and parcel of our American way of life. We look forward to making progress during the next fifty years just as we have in the past fifty years—but hopefully, just a little faster.

When the Social Security Act was enacted in 1935, there were 11 titles in the Act consisting of nine programs, two of which (public health and vocational rehabilitation grants) have been transferred to other laws. Today there are 20 titles in the Act consisting of 14 programs. The omnibus character of the Act is frequently overlooked by the magnitude and importance of the OASDHI program popularly referred to as "social security."

Appendix A

THE PROGRAMS IN THE SOCIAL SECURITY ACT, 1985

Title I—Federal Grants for Old Age Assistance (OAA) for the Territories.

Title II—Federal Old Age, Survivors, and Disability Benefits (OASDI).

Title III—Federal Funds for State Administration of Unemployment Insurance (UI) and the Employment Service (ES).

Title IV—Federal Grants to States for Aid to Families with Dependent Children (AFDC) and Child Welfare Services (CWS).

Title V—Federal Grants to States for Maternal and Child Health (MCH) and Crippled Children Services (CC).

Title VII—Administration

Title IX—Provisions Relating to Unemployment Insurance (UI).

Title X—Federal Grants to States for Assistance to the Blind (AB) for the Territories.

Title XI—General Provisions.

Title XII—Advances to State Unemployment Funds.

Title XIV—Federal Grants to States for Assistance to the Permanently Disabled (APTD) for the Territories.

Title XVI—Supplementary Security Income (SSI) for the Aged, Blind and Disabled.

Title XVIII—Medicare (HI and SMI), Hospitalization (HI)—Part A, and Supplementary Medical Insurance (SMI)—Part B; Health Insurance for the Aged and Disabled.

Title XIX—Federal Grants to the States for Medicaid.

Title XX—Federal Block Grant to the States for Social Services.

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