OASDI BENEFIT FORMULA ISSUES
TEACHING SESSION

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A basic primer on the design of the OASDI benefit formula. This session
will provide background on the system as it existed during 1977 as well
as the effect of any new legislation.

MR. CHARLES L. TROWBRIDGE:

The Decoupling Issue

Let us begin our lecture on this intriguing but tricky issue by describing
the OASDI benefit formula as it existed after the 1972 legislation, but
before the 1977 change. Then we will examine this formula to see why it
proved to be unsatisfactory under the economic conditions experienced
during the middle 1970's. Finally, we can look at the 1977 legislation
to see how these unsatisfactory features have been corrected.

The Benefit Formula after the 1972 Amendments

The basic OASDI benefit goes under the name of the "primary insurance
amount" usually shortened to the initials PIA. PIA is expressed in
terms of a monthly income. Even though OASDI benefits are many and
varied, including as they do old-age, disability, and survivor benefits
of several types, we simplify our thinking by recognizing that any of
these benefits (with only very minor exceptions) are equal to the PIA,
or to some fraction thereof. The calculation of the PIA is, therefore,
the essential element in the OASDI benefit formula; and the ratio that
the PIA bears to the income earned prior to death, disability, or
retirement (hereafter called the replacement ratio) is the best simple
measure of the income replacement characteristics of the Social Security
system.

Before we undertake the examination of the formula controlling the PIA,
it will be convenient to look at another function in terms of which the
PIA has been expressed. I refer now to what has been called the
"average monthly wage"--the AMW.

The AMW of the 1972 and earlier acts is essentially 1/12 of the simple
arithmetic average of the individual's n highest taxable wage records.
n in turn varies by both calendar time and year of birth. The simplest
way of computing n is the subtraction of two calendar years. Calendar
year A--the more recent--is the year of death, disability, or attain-
ment of age 62. B is the later of 1956, or the year of attainment of
age 26. n is then equal to A - B, but subject to a minimum of 2 and a
maximum of 35. For those retiring at age 65 in 1979, for example,
n = 1976 - 1956 = 20. For those attaining age 35 in 1979, and dying
or becoming disabled in that year, n = 1979 - 1970 = 9.

For retirement situations, n is increasing by one each calendar year, and will continue to do so until it reaches 35. For death and disability situations, n is one higher for each year of attained age, and is the same as the n for retirement situations only if death or disability is at age 62 or later. We shall see later that the lengthening n is something to contend with in the development of a more rational formula.

Let us now return to the PIA calculation--and let us remember we are still dealing with 1972 law. Mechanically, one enters a table with the AMW and gets the PIA directly--but for our purposes today we need to look at the formula behind the table. The formula is of the form:

$$Z_1\% \text{ of the first } W_1 \text{ of AMW}$$

$$+ Z_2\% \text{ of the next } W_2 \text{ of AMW}$$

$$+ Z_3\% \text{ of the next } W_3 \text{ of AMW}$$

$$\text{etc. out to more terms than simplicity would dictate.}$$

A new term was added every time the taxable wage base, and hence the potential maximum AMW, was increased.

In general, the Z's are a decreasing function of t, so that high levels of AMW produce a lower PIA proportionately, though a higher PIA absolutely, than low levels of AMW. PIA's are, therefore, "progressive"--in the sense that replacement ratios are higher for low income people.

An important point to note is that the PIA formula was "coupled" to the benefits for those already beneficiaries by indexing the Z's to the CPI. In mid-1977, for example, OASDI beneficiaries got a 5.9% increase to reflect one year of inflation. At the same time, each Z in the PIA formula was multiplied by 1.059.

Now that we have described the 1972 PIA mechanics, and its several complications, we would do well to look at why it has proved to be unsatisfactory. The trouble has been described by some as "over-indexing", or even "double-indexing", of the potential benefits for those still active. I would not violently disagree with those who use this terminology, but I prefer "erratic" or "irrational" indexing, since there are circumstances under which the 1972 procedures could produce too little indexing rather than too much.

It is quite clear that the coupling increases potential benefits in step with the CPI. It is also clear that wage and salary increases (which normally accompany price increases) also serve to raise PIA's, since OASDI is a wage-related system. What is not so clear, until one looks into it, is that only a part of increases in wages (perhaps 50%) flow through into increases in PIA. The technical reasons why this is so are twofold--and I will not go into them in any detail. Suffice it to say that these are (1) the effects of the lengthening of the averaging period n, and (2) the static nature of the breakpoints in the PIA formula--what I have called W in this presentation. As the AMW rises, the average Z lowers, as a greater % of the AMW gets into the higher brackets.

The overall indexing of the PIA turns out to be (1) 100% indexing on the CPI + (2) 50% or so indexing on earnings. Only if wages are rising about twice as fast as the CPI does this two-term indexing approach approximate PIA's rising as fast as wages. This seemed to be the pattern back in the 1960's--so it was thought (at the time when the 1972 changes were under consideration) that replacement ratios might prove quite stable. Experience of the 1970's has, however, been different-- and over-indexing of benefits (for those still active) has been the result.

To sum it all up, the 1972 mechanics for determining PIA's has proven to be unstable under inflationary conditions. Replacement ratios have a tendency to "take off" under some conditions--those that we have experienced of late--and to deteriorate under others. Clearly, we need a better design. We need replacement ratios that are stable over time; or at the very least an orderly trend in replacement ratios that we can predict or control.

The Benefit Formula After the 1977 Amendments

There are essentially these three changes in the PIA calculation:

1. A newly defined Average Indexed Monthly Earnings (AIME) is substituted for the more familiar Average Monthly Wage (AMW).

2. There is a new formula by which the PIA is obtained once the AIME is calculated. This formula is of the same mathematical form as the old PIA $= \sum Z_t \cdot W_t$, but the specific Z's and W's are different-- and there are only three terms.

3. The percentages Z_t are no longer indexed to the CPI--hence the potential benefits for those not yet beneficiaries become independent (decoupled) of benefits for those already beneficiaries. On the other hand, the breakpoints W_t are now indexed to average earnings.

We will examine each of these changes in more detail, pointing out the contribution of each change to the overall goal--the stabilization of replacement ratios over time, despite the possibility of erraticism in price levels, in wage levels, or in both.

The AIME

The AIME is calculated just like the AMW--except for one important difference. Before the n highest wage (or earnings) records are (1) selected, and (2) averaged, each record is "indexed" to the calendar year two years prior to the year of death, disability, or attainment of age 62. For those dying, becoming disabled, or reaching 62 in 1979 (the earliest year for which AIME's are involved), the indexing is to 1977. A record of 1967 earnings would be moved 10 years later, multiplying the actual record by the ratio that 1977 average earnings bears to the similar figure for 1967. The n highest indexed wage records are then selected, and 1/12 of their arithmetic average computed. Since the way n is determined is unchanged, actuaries will immediately see that the AIME is invariably higher than the older AMW. They will also note that the increase depends on the relative recency of the record. Old records are greatly affected and the most recent years are unchanged.

A little thought should convince you that the AIME largely washes out
the effect of the lengthening n that proved troublesome before. AIME's
will, in general, keep up with rising wages--whereas the AMW fell behind.
In addition, old wage history will be given approximate parity with
recent wage history, thus avoiding certain inequities between generations.
We will see some other good effects later.

The New PIA Formula

For those of you who are simply dying to write down a formula, I finally
have one to offer to you. For those becoming beneficiaries in 1979,
the new PIA formula is this three-term beauty:

$$\text{PIA} = \begin{array}{l} 90\% \text{ of first \$180 of AIME} \\ +32\% \text{ of the next \$905 of AIME} \\ +15\% \text{ of any excess over \$1,085} \end{array}$$

Since the AIME always exceeds the old AMW, and since the intention was
to wind up with a PIA no larger than under the old procedure, it follows
that the percentages P--i.e., the 90%, 32%, and 15%--are generally
smaller than under the old formula connecting the PIA and the AMW.
Above the second breakpoint the percentage is only 15%--where it was
never less than 20% under the old formula.

In fact, these three percentages were set to produce, for the typical
situation of retirement at age 65, answers on the average 5 to 10%
lower than under the old law. I leave it to you to approximate the
effect in young age or disability situations--where the AIME is only
very little larger than the AMW.

The Indexing Procedure

The 90%, 32%, and 15%'s are now to be regarded as fixed parameters.
No longer will they, as in the past, increase with the CPI. Decoupling
has been accomplished.

On the other hand, the two breakpoints ($180 and $1,085 in 1979) have
now become dynamic, increasing each year in step with average earnings.
We have already seen that changes in wage levels now flow through cleanly
into the AIME. The breakpoint indexing assures that AIME increases will
flow cleanly into the PIA. Thus, PIA's go up approximately as fast as
average wages, and replacement ratios are thereby stabilized over time,
the main purpose of this exercise.

There is one refinement to the indexing that should be noted. In a way,
it is an exception to the decoupling principle. I refer to the situation
where a worker retires, as many do, at some age higher than 62. You will
remember that the wage indexing employed in the AIME calculation carries
only to age 62.

To calculate the PIA for retirement at age 65, one calculates it first
with indexing to the year in which age 62 is attained--then the result
is increased by the appropriate 3-year CPI adjustment. This puts later
retirements on a par with earlier retirements, who have enjoyed CPI
increases since their earlier retirement date.

It should be emphasized that the new law in no way affects the CPI
indexing once beneficiary status is attained. This principle came
into OASDI in 1972--and it is still in effect.

Transition Arrangements

To complete this description of the OASDI benefits under the new law, we
must add a word or two about transition arrangements. The new formula
has no effect until 1-1-79--but beginning then, the old-age benefit is
computed as the greater of (1) the formula introduced by the 1977
legislation, and (2) the old-law formula, but with no indexing of the
Z's beyond 1978. During 1979, and for a few years beyond then, the
old-law calculation will prove to be the larger in many (but certainly
not all) circumstances. Before long, however, the indexing character-
istics of the new formula will cause it to exceed the "frozen" old-law
formula, and the transition will be complete. These arrangements provide
a smooth bridge-over--and assure the fulfillment of expectations of those
who have counted on the old-age benefits promised by the old law.

It is worthwhile to note, however, that there are no such transition
arrangements for death or disability benefits--the SI and DI parts of
the program. When the new formula cuts in on 1-1-79, it will do so
suddenly. We have suggested earlier that benefits at the young ages
have, in the past, been out of line on the high side--largely because
of the short averaging period. The new law cuts young age benefits--
at the youngest ages by as much as 20%. This is a worthwhile improvement
in individual equity that actuaries should welcome.

The Short Service Problem

1. A typical benefit formula of a fixed benefit pension plan in the private
   sector has direct and explicit recognition of years of service. X% x
   years of service x some measure of pay is perhaps typical. Generally
   speaking, the employee (A) with 40 years of service is likely to receive
   about twice the pension of an otherwise similar employee (B) with only
   20.

2. One need not look far to see why this is so.

   a. To the extent that the plan is contributory, A has contributed
      twice as long.

   b. To the extent that a pension benefit is viewed as deferred compen-
      sation, A's 40 years of service would seem to have earned him twice
      as much as B's 20.

   c. To the extent that B's missing 20 years represents service with an
      earlier employer, there is a natural assumption that the former
      employer is responsible for half of the pension benefit--just as
      he would be for paid vacations, health insurance, or other fringe
      benefits during those 20 years.

3. The Social Security benefit formula, however, does not directly reflect
   years of service. The formula by which the PIA is determined from the
   average earnings has no service component. As long as there are enough
   years of covered service for the worker to be eligible, PIA is 90% of
   the 1st $X of AIME, 32% of the next $Y, and 15% of any excess over $X + $Y.

4. There is, however, an <u>indirect</u> reflection of covered service. In the first place, a minimum number of years m (today about 7 but eventually 10) is needed in order to earn any old-age benefit. Secondly, the AIME is an average of the highest indexed monthly earnings over an n year period. n, for those reaching age 65 in 1979, will be 20. Obviously, any of this cohort with less than 20 years of covered earnings will have some zeros in the computation of the average--and hence some reduction in benefits. 15 years of covered service would mean 5 zero years, and a cut in AIME of approximately 1/4. The PIA would not be cut by that much, however, because of the weighting in the 90%, 32%, 15% PIA formula. If the AIME for a worker with 20 years or more of covered service is $1,200, his 1979 new formula PIA works out to be $469. For another worker with a similar wage record but covered only 15 years, the AIME would include 5 zeros, and might be $900 approximately. At $900 the PIA is $392, not 25% lower than his longer service compatriot but only 16% down.

5. To summarize, the system is in many ways too kind to short service workers. There is some service recognition in the Social Service benefit formula--but it is weak, and has some unsatisfactory character-istics:

   a. Covered service up to m years counts very heavily, since m years are required to get <u>any</u> old-age benefit.

   b. Covered service more than m but less than n counts some, but not nearly as much as the first m.

   c. Covered service beyond n years counts for very little. Only the possibility of a wider selection (for the n highest) helps at all.

   To get the full flavor, it is well to note that n, which is 20 for age 65 retirements in 1979, is increasing by 1 with each new calendar year until it reaches 35; and m is increasing by 1/4 with each year until it reaches 10. Under earlier law a short early-career period of covered service was not nearly as valuable, in the earning of old-age benefits, as a late-career period of similar length. This was another example of the poor service characteristics of the benefit formula.

6. There is some slight but definite improvement in these short service relationships as a result of the 1977 legislation. Nothing spectacular has happened. There is still no direct service recognition in the PIA formula. There is no change in the calculation of n or m. The PIA formula still weights low levels of AIME heavily. But the new AIME-PIA mechanics has the effect of:

   a. Reducing benefits when the wage record is short and recent.

   b. Increasing benefits where the wage record is short--but old.

   No longer are there such advantages in the former case; or such dis-advantages in the latter. Another point is that the regular minimum PIA provision, which clearly recognizes service, is to be strengthened.

7. With the preceding as a technical background, we now move to the more philosophical aspects--answers to the questions why--rather than to

what or how. Why is there so little recognition to years of covered service? and a natural corollary question--who is helped and who is hurt by these peculiarities of the formula?

8. The why's are probably more practical and historical than they are intentional. Remember that in the early days of the Social Security system no one had any substantial years of covered service, simply because the system did not start collecting taxes until 1937. For many groups, especially the self-employed, the effective date was not until much later. Only since the system has become reasonably mature has there been any possibility of service related benefits; but a gradually strengthening service relationship was built in long ago with the concept of the continually lengthening n. By the time that n reaches its 35-year maximum, most new retirees will have been covered for 35 years--and those who have not will not have maximum benefits.

9. Once the system is mature, those who become beneficiaries based on a short wage record will fall into three general classes.

    a. Those who have short covered service records because of death or disability at young ages. Such persons get full benefits, and should. Their short covered service is presumably because of events over which they had no control. We have seen earlier that a problem with respect to over-generous benefits arising from death or disability at young attained ages has been corrected.

    b. Those who are in and out of the labor force, and hence reach retire-ment age with a short history of paid employment. Married women who spend part of their adult years as homemakers make up much of this class.

    c. Those who work a full career, but are in and out of covered employment. Remember that the OASDI system is not universal. Persons who are, who have been, or who will be government employees for part (but not all) of their careers make up the bulk of this class.

10. The relatively generous benefits for those with broken wage records due to little attachment to the labor force can probably be defended. Especially is this true once the minimum PIA has been phased out. It is one counter to the argument one sometimes hears as to how the system treats the paid employment of married women.

11. The generous benefits for those with substantial amounts of non-covered employment (usually federal civil service, but sometimes employment with a state or local government unit that has selected not to join) is another matter. Clearly, the designers of the system did not intend high replacement ratios for high-paid employment--but this is the result where the formula is blind as to why the AMW (or AIME) is low, and where length of service is only recognized indirectly. The results are particularly galling because federal civil servants, who are not under OASDI and, therefore, don't pay FICA taxes, have the most influence on the legislation controlling the system. All too many federal employees get generous civil service retirement benefits, and 'substantial OASDI benefits (based in many cases on a very short history of private employ-ment) as well. The same phenomena gives rise to all the talk one hears about state or local units withdrawing from Social Security. Universal coverage is, of course, the right answer to the problems here discussed, coupled with changes in the government plans to reflect OASDI benefits.

MR. ERNEST J. MOORHEAD:

Replacement Ratio Considerations

"Replacement ratio" concepts are so basic to appraisals of, and attitudes
toward, OASDI that they deserve a full Society paper which I hope someday
will be written. The Consultant Panel of which I was a member undertook
some research within the limited time we had available, and published it
as part of our report. That work might serve as a starting point for
such an actuarial paper.

To begin with, he or she who delves into replacement ratios must first define
what is meant. In general, the numerator of that ratio is the PIA, i.e.,
the initial benefit payable; the denominator is one of several possible
measures of pre-retirement earnings. A frequent measure of such earnings
is their average amount in the year immediately preceding retirement, but
this is by no means necessarily the best measure to convey an understanding
of what the system is accomplishing. Orlo R. Nichols of the Office of the
Actuary, Social Security Administration, gives an admirable brief discussion
of this subject in ACTUARIAL NOTE No. 93 (October, 1977). The Consultant
Panel Report (August, 1976) used (page 19) two replacement ratios indentified
respectively by the adjectives "short" and "long"; the former employed the
customary definition, covered earnings in the final year before retirement,
while the denominator for the latter was the average of price-indexed
earnings in the 7 years that remain out of the 10 years before retirement
after the earnings of the 1 year of highest earnings and the 2 years of
lowest earnings have been stricken.

In practice, the replacement ratio has two distinct uses. One is to
appraise the consequences for beneficiaries of any benefit formula in
use or being considered. The other, becoming increasingly ingrained, is
to establish the ratio as a front-ranking criterion for what OASDI must
be engineered to accomplish. Note that in the December, 1977 amendments,
"Stabilization Of Replacement Rates In The OASDI Program" is part of the
heading to Title II.

In fact, however, the expressed aim of that amendment was not immediate
stabilization of all current replacement ratios, but deferred stabilization
of some of them. Donald D. Cody presented the figures for this in the
Concurrent Session yesterday.

What is the rationale for measuring OASDI effectiveness in terms of replace-
ment ratios? In general, OASDI is advertised as a "wage-related benefit";
hence, replacement ratios provide one reasonable way for showing how this
concept is balanced against the "social", i.e., the humane, performance of
OASDI. It is readily arguable that the extent of protection that the system
provides against lost earnings is best measured in terms of the income from
which and to which the person or family must move.

Nevertheless, actuaries should look cautiously at both (a) the replacement
ratio concept as it is customarily used these days, and at (b) the arith-
metic being offered to demonstrate what the current amendments are expected
to accomplish by way of eventual stabilization of these ratios.

The following shortcomings of replacement ratios should be recognized and
kept in mind. They, usually, ignore the important fact that the benefits

are tax-free* while the earnings in the denominator are taxed; they leave out of consideration both private pensions and savings and the extent to which the increasingly lenient "retirement test" permits OASDI benefits to be supplemented by earnings; and they omit any measures of living cost reductions that retirement circumstances permit both at the outset and also later when interests and mobility both are experiencing decline due to advancing age.

Those are the shortcomings of the concept. But, in addition, there are drawbacks worthy of note in the figures themselves. The figures displayed by Mr. Cody, which are typical of those customarily offered, related only to three situations, all of these involving people who have enjoyed unbroken and smooth earnings progressions through the OASDI averaging period. These three are respectively "low earners", "average earners" and those who have always earned at least the maximum taxable amounts. These people form only tiny sub-groups in the covered population, and, except for the last of them, are not even common situations. Furthermore, the notion that an "average earner" is best defined as a person whose earnings follow precisely the average year-by-year reported earnings of all who are covered under OASDI seems most unsatisfactory. Taking a mixture of earnings for people of all ages, disregarding the large differences in patterns between men and women, and then using the arithmetic mean instead of the more appropriate median -- all of these seem to make these calculations of dubious informational value and possibly even misleading.

The final major question is what replacement ratios should be accepted as sensible social and economic goals toward which the system should aim. The leading candidates, judging from current debate, seem to be the ratios that existed in 1972 (just before the unintended recent escalation attributable to the faulty 1972 benefit formula), or the ratios that existed in 1977 (just before the amendments were adopted). But the furor of the past several months about allegedly unreasonable increases in the payroll tax and the covered earnings suggests the desirability of first defining what the goals should be if the cost of paying for benefits were no object, and then setting goals that rationally balance the competing objectives of keeping benefits up and keeping costs down.

All in all, the study of replacement ratio questions offers a fertile and only partly tilled field for actuaries. It may well be that research funds which our profession currently seeks to employ in worthy investigations might be used in part for replacement ratio studies and statistical developments.

    *Note: On December 1, 1977, the New York Times published a letter from Mr. Ray Peterson containing the following historical information on the tax-free status of OASDI benefits:

       "Such status arises from an administrative ruling of the Treasury Department and not from a statutory enactment. This ruling is I.T. 3447, C.B. 1941-1.191, which stated that Social Security case benefits should be free of income tax since they were a "gratuity"! At a hearing of the Committee on Ways and Means on March 1, 1967, Stanley Surrey, then Assistant Secretary of the Treasury for Tax Policy, gave this explanation of the ruling:
          "The exclusion of Social Security retirement benefits is a tax anachronism granted administratively in the days when benefits were low and the Social Security system was in its infancy and viewed as a "welfare" program."

Impact of Wage Base Changes

The original maximum taxable earnings amount, starting in 1937, was $3,000.
This sounds tiny nowadays, until we realize that the vast majority of workers
(including Fellows of the Actuarial Society) earned less. Among the workers
originally covered by the Act, 95.8% of the men, and 99.7% of the women,
reported earnings below $3,000.

During the next thirteen years, increases in the taxable maximum were often
discussed but never adopted--until 1950 when Congress, in partial response
to an Administration proposal to raise the maximum to $4,800, raised it to
$3,600.

Through the following twenty years, increases were voted irregularly. The
covered amount reached $7,800 in 1968 (some at that time advocating a jump
to $15,000), and reached $9,000 in 1972. In 1973 the system of automatic
increases proportionate to increases in the average wages of covered workers
was introduced, bringing the maximum to its present $17,700.

During the 40-year period the proportion of covered workers whose earnings
have been below the taxable maximum has formed a U-shaped curve. It started
at 97%, declined to 68% in 1954, then increased to 85% immediately before
the 1977 amendments.

Recently there has been much debate on the need and desirability for supple-
menting the automatic amount increases by one or more special boosts. Argu-
ments in favor have been (a) the helpful temporary effect upon levels of the
trust funds, and (b) the purported reasonableness of having at least 90%
of the workers covered with respect to all their earnings. Arguments
against have been that (a) any helpful financial results will boomerang
later in higher benefit costs, and (b) private pension territory would be
unreasonably and unnecessarily invaded.

In the December, 1977 amendments, three extra boosts were legislated--in
1979, 1980 and 1981. Their sizes, over and above the automatic increases,
are approximately $4,000, $1,000 and $1,800 respectively. Their total
effect, thus, is nearly $7,000, three times as large as the $2,400
recommended by our Consultant Panel, which proposal was viewed with
some horror.

In retrospect, it may be said that these three extra increases have served
a good purpose by staving off what many critics regard as an even greater
evil, i.e., the plan to base employer taxes on higher earnings amounts than
those applicable to employee taxes and to benefit determination. On the
other hand, these special increases have contributed materially to the wave
of public resentment sparked by news reports that payroll taxes for the highly
paid may triple by 1987. It may yet prove to be difficult to head off the
sentiment that favors rolling back the payroll tax increase in favor of
partial financing from non-existent general revenues.

MR. TROWBRIDGE:

The Retirement Age and the Retirement Test

The final segment of this presentation has to do with the retirement age,
the retirement test, and the interplay between the two. In this area, we

are looking more at what may happen in the future—and less at what has already happened; but the 1977 legislation did change the retirement test (sometimes called the earnings test), so we might first bring you up to date.

Of all the controversies surrounding the OASDI system, perhaps the most troublesome is that revolving around the retirement test. Those already retired resent the loss of Social Security benefits during periods in which they work for pay. The pressure to increase the so-called exempt amount, or even to ignore all earned income for Social Security benefit purposes, is tremendous. You will remember that the system that has evolved over the years is (1) to establish an exempt amount, (2) to deduct $1 from the Social Security benefit for each $2 of earnings above the exempt amount, and (3) to ignore all earnings above some high age (which, until now, has been age 72).

Congress responded to these pressures by raising the exempt amount (for those age 65 and up), and by providing that the age 72 "all earnings ignored" rule be extended to age 70 by 1981. On the other hand, it held the line as to the operation of the test below age 65, and in another way it tightened the operation of the test (by applying it annually only, except in the calendar year of retirement).

In general, the trend seems to be toward even more leniency in the retirement test—brought about at least in part by the argument that we want to put as few obstacles as possible in the way of the oldster who wants to supplement his or her pension by work.

Now let us transfer our attention to the retirement age. Full benefits can be enjoyed at age 65, with reduced benefits available as early as age 62. Age 65 has been the so-called normal retirement age since the system's inception—and the early retirement provision (with its 20% reduction at age 62) has also been around for a long time.

The new factor on the horizon, not reflected in the 1977 legislation but clearly reflected in its legislative history, is the possibility that some-time the normal retirement age might be raised (say to age 68) and the early retirement age might then be raised to age 65. Those who are talking this way have several pieces of rationale: (1) the improving health of the American worker, (2) the low fertility rates which will lead eventually to a low proportion of the population at working ages below 65, (3) the remaining deficit in the long term financing picture, and (4) the trend toward elimination of mandatory retirement in the private sector.

Note that this last development, like the retirement test matter, is based on the assumption that there may be more, rather than less, productive employment of those at the higher ages.

These two matters, retirement age and the retirement test, are seemingly only marginally related; but they are thrown together in this presentation only to point out a point of potential future trouble. If the retirement test is further eroded (for example, if all earnings after age 65 are ignored), but the "normal" retirement age is eventually raised (to say 68), these two provisions will clearly clash. The result could be a high percentage of the population working and enjoying Social Security benefits at the same time. This hardly seems to be in the best interests of the U. S. public.