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SOCIAL SECURITY

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1. Major Amendments
2. Financial Condition of Social Security After the Amendments
3. Benefit Levels
4. Possible Future Legislation

CHAIRMAN BENJAMIN R. WHITELEY: Social Security has been a subject of widespread interest in recent months. Hardly a day has gone by that a news item, editorial or magazine article on some aspect of Social Security has not come to my attention.

For the past few years, the major problem under discussion has been diminishing Social Security trust funds and potential large future deficits. It was said that the System was going "broke" . . . Payments to beneficiaries were exceeding income from payroll taxes. Something needed to be done . . . and so, after much study and debate, Congress, on December 15, 1977, passed and sent to the President H.R. 9346, "The Social Security Amendments of 1977". These Amendments made a number of very significant and far-reaching changes in the Social Security program; changes perhaps more far-reaching than any changes since the 1950 Amendments.

The purpose of this session is to discuss the Social Security system after the 1977 Amendments.

Our format will be to follow the program subjects closely with comments first from the panelists on the whole range of topics and then we will open it up for questions or comments from the audience. I've asked Mr. Toy to begin by explaining the 1977 Amendments . . . at least those of major interest.

MR. GERALD G. TOY: There were at least 24 amendments to the Social Security Act in 1977; but some were more important and far-reaching than others. By type of change, these may be classified as shown:

TYPE OF CHANGE	NUMBER OF CHANGES
1. Coverage	8
2. Benefits	10
3. Financing	4
4. General	2
TOTAL	24

I will not attempt to list all of them - Haeworth Robertson, Bob Myers and others have done so in excellent fashion. However, I want to attempt to clarify them in order of importance:

1. Decoupling: The benefit formula had been indexed to reflect both the effect of inflation on prices and on wages. It has now been decoupled which will prevent inflation from having the double-barreled effect that it has had in boosting benefits beyond reasonable bounds. The benefit formula has been simplified from a ten factor formula that is in effect in 1978 to a three factor formula that will be in effect in 1979. In addition, the formula will produce benefits based upon average indexed monthly earnings rather than the old average monthly wage.

   This change cut the actuarial deficit, which, based on intermediate assumptions was estimated to be 8.2%, in half.

2. Financing: The increases in taxable wage bases and tax rates should cut the actuarial deficit by almost 2% and should keep the System financially sound, at least for the immediate future. This, coupled with the "decoupling," gives better prospects of long-range soundness and avoids general revenue financing.

   The goal of keeping the System on a self-financing basis through earmarked payroll taxes has therefore been reached, at least for now.

3. Retirement Test: Although this is not as significant from a financial point of view as some of the other changes, it is probably one that is of greater interest to the public in general than some other changes. This change increased the amount that can be earned between ages 65 and 72 to $4,000 a year in 1978 (up from $3,000 in 1977). This amount will be increased $500 a year until it reaches $6,000 in 1982. In that year, the age at which no test is applied will be lowered to age 70.

4. Future Studies of the Social Security System: The 1977 Amendments provide for a number of items to be studied, some of which were authorized because of differences of opinion between the House and Senate that could not be resolved. The principal provisions for these studies are outlined below.

   1. National Commission on Social Security: To make a very broad study of OASDI and Medicare (2-year study).

   2. A study of "coverage of governmental and non-profit employees," by the Secretary of HEW (in consultation with the Director of the Office of Management and Budget, the Chairman of the Civil Service Commission, and the Secretary of the Treasury).

   3. A study toward "elimination of dependency anomalies and sex discrimination," by the Secretary of HEW.

The Advisory Council on Social Security (named by the Secretary of HEW) has been provided by the law for some time. It will be studying items of somewhat the same nature as the National Commission on Social Security, but not on as broad a basis.

MR. WHITELEY: There is one aspect of the Amendments which affects retired life insurance agents. Before 1978, full Social Security benefits could be paid for any month that a beneficiary had earnings below the monthly exempt amount (1/12 the annual amount) and did not perform substantial services in self-employment. Retired agents considered themselves self-employed and used the "substantial services" test (worked less than 45 hours per month selling "new" insurance).

Now they must use the "annual income test" which begins withholding $1 in benefits for each $2 earned above the annual income test amount ($4,000 in 1978.) The monthly exempt amount of earnings for people age 65 and over in 1978 is $334. My understanding is that when a new sale is made, the first year commission plus the present value of renewal commissions is considered income in the month the policy is sold for the purpose of applying the income test.

If the 1977 Amendments were developed to keep the System solvent, how successful were they? Two headlines from recent local newspapers would seem to say very successful. From the May 16 Oregon Journal a one-inch headline proclaims "Tax Hikes 'save' Social Security" and from the Portland Oregonian of the following day "Social Security says Trust Funds in Good Shape." Haeworth Robertson - What is your view of the financial status of the System after the 1977 Amendments?

MR A. HAEWORTH ROBERTSON: On May 16, 1978, Social Security's Board of Trustees released their annual reports on the program's financial condition with as little fanfare as possible. To do otherwise would have been to risk publicizing that despite recent assurances to the public that the 1977 Amendments placed the Social Security program in sound financial condition for the next 50 years, the facts (according to projections prepared by the Social Security Administration actuaries) are as follows:

- The Hospital Insurance program will begin operating at a deficit in 1985 and the Hospital Insurance trust fund will be exhausted in about 1990 - just 12 years from now.

- To finance the benefits provided under the present Social Security program (Old-Age, Survivors, Disability and Hospital Insurance combined) will require the current tax rate of 6.05% to be increased steadily to approximately 8% by the year 2000 and 12% by the year 2025. In other words, the tax rate will have to increase, on the average, by 0.13% each year for the next 46 years at which time it will be some 12% of taxable earnings. (Current law provides for the tax rate to increase to 7.65% by the year 1990 and to remain level thereafter.)

Publicity of this type could have been considered to be inappropriate at a time when the public was balking at a scheduled tax rate increase in 1979 of a mere 0.08% (from 6.05% to 6.13%) and when the Congress was considering "rolling back" the tax rate to 5.85% and "using general revenue" to meet the deficits thus created. For those not familiar with government jargon, it may be useful to point out that to "use general revenue" can be any of these three things:

1. Reduce government spending so that a portion of the general taxes already being collected will be available to pay Social Security benefits.

2. Increase the general taxes so that additional funds will be available to pay Social Security benefits.

3. Do neither (1) nor (2), but increase the national debt by the amount needed to pay the portion of the Social Security benefits which cannot be financed by Social Security payroll taxes; i.e., engage in deficit spending.

Proposals the past few months to use general revenue to finance Social Security benefits have contemplated definition (3) so as "to minimize the impact on the economy." This is specious reasoning to say the least. Such action would be tantamount to continue benefit payments at ever-increasing levels but refusing to collect the taxes necessary to pay for such benefits. This first small dose of deficit spending "to pay for" Social Security would undoubtedly result in continuing and larger doses until the public eventually became hopelessly addicted to the illusion of getting something for nothing. Congress has an awesome responsibility in deciding whether to be the pusher for euphoric deficit spending for Social Security.

In addition to this responsibility, Congress has a golden opportunity to regain some of the public confidence it has lost in recent years. Just because the Trustees issued their financial reports to the Congress without any fanfare, that doesn't mean that Congress has to keep quiet. Congress should communicate the results of these financial reports to the public so they will have a full understanding of the probable cost of Social Security, now and in the future. Attempts to conceal the cost, or minimize the significance of the cost, or apologize for the cost will not change the cost in any way. Furthermore, Congress should explain to the public the rationale of the Social Security program so that people will know what role they should expect Social Security to play in meeting their income maintenance needs.

Once the public knows what Social Security is and what it costs, they will be in a position to reaffirm the program or effect a revision which strikes an acceptable compromise between what the public wants and what it is willing to pay for. In either event, everyone will be the winner. If the public is not given more information, everyone will be the loser.

MR. WHITELEY: The point seems to be that the financing problem of Social Security is not solved. The long-range picture is very important to consider. There is apparently a feeling in the Administration or Congress that the public does not need to know that information.

As Gerry Toy mentioned earlier, one of the main goals of the 1977 Amendments was to "decouple" so that benefits were not adjusted twice for inflationary trends. This change will affect future benefit levels and replacement ratios. Gerry, will you explain "replacement ratios" and what we are to expect from the new formula?

MR. TOY: One of the most pressing problems faced by the Congress was the rapidly increasing level of benefits. This was due to the effects of inflation, since the benefit formula reflected inflation in two ways: greater percentages for each term in the formula and higher earnings amounts to which the percentages were applied.

The "replacement ratios" or "benefit ratios" (ratio of Primary Insurance Amount to earnings in the year of retirement) were increasing, and the rate of increase was projected to become much greater. The following table shows the ratios for some specimen years.

YEAR	REPLACEMENT RATIO AT AGE 65 LOW-EARNINGS WORKER	AVERAGE-EARNINGS WORKER	MAXIMUM-EARNINGS WORKER
1960	51.8%	32.8%	29.8%
1970	52.2%	34.3%	29.2%
1978	62.1%	44.4%	33.4%

This lack of "stability" in the benefit formula was corrected in the 1977 Amendments. The new benefit formula is designed to stabilize the replacement ratios and thereby prevent the rapid increases that the old formula was producing. The projected replacement ratios for future years are:

YEAR	REPLACEMENT RATIO AT AGE 65 LOW-EARNINGS WORKER	AVERAGE-EARNINGS WORKER	MAXIMUM-EARNINGS WORKER
1980*	59.4%*	46.6%*	29.3%*
1990	53.6%	41.8%	24.1%
2000	53.6%	41.8%	25.7%

*The replacement ratios for 1980 are computed by the old formula (during the transition period).

NOTE: The definitions of "Low" and "Average" earnings differ slightly in the two tables above. For the latter table, they are the following:

Low Earnings: $4,600 in 1976
Average Earnings: $9,266 in 1976 (average of all covered workers)
Maximum Earnings: $15,300 in 1976 (taxable earnings base, each year)

"Is the Level of Benefits Satisfactory?"

This is a subjective question, to which my answer is a qualified "yes". The reasons for my opinion are:

1. The benefits provide a substantial "floor of protection," as the System was designed to provide originally.

2. There is room left for providing for one's own retirement financial needs, either through an employer-sponsored pension plan or personal savings, or both. (In other words, there is still an opportunity for *individual initiative - the government doesn't "do it all".)*

The primary reason for my qualification is that these benefits are percentages of gross earnings, and they ignore the 50% additional benefit for the spouse of a retiring worker. The effect of taxes is ignored. Since Social Security benefits are not subject to income tax, the benefits as a percentage of take-home pay are considerably higher. For some workers, therefore, these benefits are much higher than a "floor of protection". Whenever Social Security benefits approach or even exceed take-home pay, the System is not working properly.

MR. WHITELEY: What does the future hold? We have a system which still has long-range financing problems. Most people seem to feel that we've raised the payroll tax almost to the breaking point. A number of alternative ideas proposed -

One heading on March 29 reads, "Ullman Favors Oil Tax to Bolster Social Security."

Several proposals, not quite so far out as that one, were brought to Congress and failed to gain support. Gerry Toy will discuss several of these.

MR. TOY: Among the large number of changes that were proposed to the Congress, at least 24 were accepted. The purpose of this discussion is to note some of the proposals that were not adopted. Possibly, they will be reintroduced at a later date.

1. General Revenue Financing: The Carter Administration has proposed use of general revenues to make up for tax losses due to unemployment in excess of 6%. Congress did not accept this proposal.

2. Parity of Contributions: Although parity has been continued (equal contributions by employer and employee), the Carter Administration had proposed a phasing-out of the limit on the taxable earnings base for employers. If this proposal had been enacted, employers would have had to pay OASDI taxes on their entire payroll.

3. Coverage of Governmental Employees: The House Committee on Ways and Means recommended coverage for all governmental employees not now included under OASDI, but the provision was deleted during House debate on a bill by a large adverse vote.

This is not intended to be an exhaustive list, but it includes some of the more important proposals that were not enacted into law.

MR. WHITELEY: Mr. Robertson on May 1 this year appeared before the Chamber of Commerce Annual Meeting. At that time he presented a commentary titled "Social Security, Prospect for Change". The commentary presents yet another approach to the problem of retirement income for elderly citizens. Mr. Robertson's proposal requires a shift in thinking and attitudes on retirement. Haeworth will summarize some of the thoughts expressed in the commentary.

MR. ROBERTSON: During my three years as Chief Actuary of the Social Security Administration, I had several unique opportunities.

The first one was the opportunity to play a role in identifying the full extent of the financial problems - present and future - of the Social Security program. These problems were and still are significant.

The second opportunity was to illuminate these problems for everyone to see in the hope that a rational solution could be developed. In this role, I met and talked with thousands of people throughout the United States - employees of the Social Security Administration, representatives of various interest groups, and members of the public at large. In the course of these discussions there was a considerable exchange of ideas and I soon became keenly aware of the public's concern about Social Security. More importantly, I gained insight as to the source of their concern and naturally began to develop some ideas about ways to solve some of the problems which seemed to lie ahead.

Another unique opportunity arose after I left the Social Security Administration when I was asked to prepare a paper about the Social Security program and the prospect for change for presentation at the Annual Meeting of the Chamber of Commerce of the United States on May 1, 1978. Our limited time today will permit only a brief look at some of the points made in the paper. Those of you who have a serious interest in the future - and all of us should - may want to review the complete paper.

THE NEED FOR CHANGE

As indicated earlier, if no change is made in the Social Security program, the total Social Security payroll taxes paid by the employee and the employer combined will be equivalent to about 24 percent of the employees' earnings within the lifetime of persons now entering the work force. Furthermore, expenditures under the Supplementary Medical Insurance program, financed primarily from general revenues, will increase steadily until reaching a level which is equivalent to about 2.50 percent of taxable payroll.

This is in addition to the steadily rising costs of a variety of other employee fringe benefit and income maintenance programs: worker's compensation, unemployment insurance, private retirement plans, group life and medical insurance plans, sickness benefit plans, etc. A realistic appraisal of the total future cost of this myriad of benefit systems is a sobering exercise.

There is growing public dissatisfaction with the Social Security program even at today's levels of taxation; further escalation in taxes will only add to this unrest. At the same time, much of the public has a desire for larger benefits in retirement than will be provided under the present Social Security program; larger benefits obviously mean higher costs.

Thus, it seems reasonable to assume that a considerable amount of work needs to be done in reviewing all of the employee benefit systems, private and public, which have grown up over the years in our attempt to satisfy the needs generated by an individual's illness, disability, old age, or death. All of these systems need to be redesigned, in varying degrees, to eliminate gaps as well as areas of duplication in satisfying these human needs.

But, after all this work has been done, the problem will still be unresolved because it is not possible to satisfy all these human "needs" as they are now defined. The only conclusion then is that the problem itself must be changed. Some way must be found to reverse the present trend whereby the inactive population is growing at a faster rate than the active working population - a trend which is projected to become more pronounced. It seems highly unlikely that the active working population, already chafing under the yoke of today's tax burden, will be able and willing to assume the even heavier burden projected for tomorrow.

THE CONCEPT OF RETIREMENT

It seems to me that the only way to reverse this trend and change the nature of the problem is to rethink the nation's present concept of work, education, leisure, and retirement. This concept should be revised and it must be presumed that an individual will engage in gainful employment suitable to his physical and mental condition until an age well beyond age 60 or 65 and possibly until the end of his life. Such a trend may be a natural development as health and life expectancy improve, and as the growth in the work force slows because of the low fertility rates now being experienced and expected to continue in the future. For this trend to be consummated, however, significant changes will be required in existing social and economic arrangements. Jobs must be structured so they are more meaningful and satisfying to the individual. Persons must undergo training and retraining to enable them to have not just second careers, but third and fourth careers. In some instances jobs must be designed to fit the capabilities of the human resources available.

For older persons as well as disabled persons, less strenuous jobs and part-time employment must be made available. Significant advances will be required in our ability to match persons with jobs. Sometimes this complete utilization of an individual can be achieved with one employer but in some cases it will involve many different employers and may require geographical relocation as well. Attitudes must change to make these new concepts possible.

These changes must begin to take place during the next 10 years, and they must be well underway by the turn of the century when the children of the post-World War II baby boom begin to reach their 40's and 50's. Bringing about these changes will be a slow process which will require the cooperation of many institutions, not just Social Security.

The first step in this process of change was the recent action by Congress prohibiting an employer from imposing mandatory retirement at an age lower than age 70 (with certain exceptions). This action was coincidental and was just another step in the direction of eliminating job discrimination altogether. Nevertheless, it fits in well with the eventual need for a more complete utilization of the nation's human resources. As time goes by and the health of the elderly improves, further increases in the mandatory retirement age may be advisable.

The next step is to revise the Social Security program so that it is consistent with a policy of more complete utilization of the nation's human resources. It is sometimes said that the Social Security program has no particular influence on the nation's retirement policy since it does not specify the age at which a person can retire, and it does not impose a mandatory retirement age. Nevertheless, through the manifold and complicated conditions under which benefits are payable, the Social Security program effectively dictates the retirement policy of the nation.

Although the Social Security program is influencing the retirement policy of the nation, it is rather difficult to determine exactly what that retirement policy is. The provisions of the current law would seem to encourage a person to retire at age 62, to engage in limited paid employment until age 65, to increase the level of his activity in paid employment from age 65 to 72, and then to work in full-time paid employment after age 72. This does not appear to be a coherent retirement policy.

Of more significance, however, the mere existence of the Social Security program sets a standard, and thus creates an expectation which then fosters a presumption of entitlement, for retirement in a person's early mid-sixties, regardless of the condition of his health and his ability to continue as a productive and useful member of society.

This retirement policy which is inherent in the Social Security program, and which effectively sets the nation's retirement policy, should be reviewed carefully to determine whether it is in fact the retirement policy which is appropriate for the nation at this time as well as in the future. Furthermore, and more importantly, careful attention should be given to the question of the extent to which the Social Security program should set the retirement policy for the nation and the extent to which such policy should be determined otherwise. The nation's retirement policy must vary from time to time depending upon a variety of factors, not the least of which is the fluctuating birth rate which causes shifts in the proportions of the population which are aged and young. The present Social Security program may not be flexible enough to accommodate a variable retirement policy. In this connection it should be noted that one important reason for adopting Social Security in the first place was to alleviate the hardships of the widespread unemployment which prevailed in the 1930's. Much of the present design of the program is thus attributable to conditions which existed 40 years ago.

Finally, to bring about this changed environment, work must begin on training and retraining individuals to meet existing job opportunities, as well as designing and redesigning jobs so they can be performed by available human resources. More sophisticated ways must be developed to appropriately match individuals and jobs.

The nation must provide an environment in which the capabilities of each individual can be utilized effectively, an environment which fosters meaningful activity, not empty idleness. Both the incentive and the opportunity should exist to enable every individual to work and produce throughout his lifetime in a series of endeavors compatible with his changing physical and mental abilities. Governmental policies should be directed toward these goals and not toward the removal from the active work force of able-bodied persons who must then be supported by the remaining active workers.

Since the Social Security program itself fosters a policy of relatively early retirement, significant changes in the program will be necessary to facilitate development of this new social and economic environment.

To some observers, major changes in the Social Security program are out of the question because of the size and scope of the program and because it is so firmly established. On the other hand, 53 percent of the present population consists of those born after World War II, persons who are now under age 33. These young persons will begin reaching their sixties just 28 years from now in the year 2006. It is today that a general framework should be constructed regarding the retirement of this generation - the type and level of benefits to be provided,the source of benefits, the approximate age at which benefits will commence, etc. In making these choices the nation must not be influenced unduly by decisions made in the past by and for different generations of people living under different circumstances.

SPECIFIC DIRECTIONS FOR CHANGE

What kind of change should be made in the Social Security program to help create an environment in which each individual will be able to develop and utilize his capabilities throughout his healthy lifetime?

In my opinion this principle is vital: The government (Federal, State, or local) should provide those benefits, and only those benefits, which an individual cannot provide for himself. In meeting this responsibility, the government should become involved to the least extent possible consistent with the interests of the nation as a whole.

There are certain risks that an individual cannot reasonably be expected to bear, for example:

> Unbridled inflation at a time when he does not have the protection normally afforded an active wage earner, or
>
> Breakthroughs in health care which may result in abnormally long lifespans.

In cases such as these, some form of government intervention is probably necessary.

But should the government - through the Social Security program - be encouraging people to retire at age 62? I think not!

The government should assume less responsibility in providing benefits for an individual, and the individual should assume more responsibility for himself. Furthermore this delineation of responsibility should be clearly understood.

In all this talk about having the government do things for us we must constantly remind ourselves that casual references to "governmental responsibility" of having the "government pay" for all or part of Social Security are extremely misleading. Stripped to its essentials, a governmental program like Social Security is just an agreement among the people of the nation that one segment of the population will receive certain benefits and that another segment of the population will pay for these benefits (with a certain amount of overlapping). The government may administer and enforce compliance with a program, but in the final analysis, any governmental program is paid for by, and is for the benefit of, the people of the nation. The government is simply the intermediary which carries out the wishes of the people.

Consider, for example, the automatic increase in Social Security benefits which will be made in June of this year. Monthly benefits which are being paid to 34 million people will be increased by 6½ percent to reflect the increase in the cost of living from 1977 to 1978.

Who will pay for this benefit increase? Is it the government? No, it is the more than 100 million people who are working and paying Social Security taxes.

The government is only the enforcement agency. It is enforcing an agreement which it negotiated between two segments of the population - those who pay the taxes and those who receive the benefits.

We should constantly remind ourselves of these very simple but fundamental principles.

> The people who are working must produce enough to take care of their own needs and have enough left over to take care of the needs of the people who are not working.
>
> As the number of people who are not working increases, the burden on the people who are working increases.

Today there are 3 persons working for every person receiving Social Security benefits. Within our lifetime this will gradually change until there will be only 2 persons working for every person receiving Social Security benefits.

There may be several ways in which Social Security can be revised to achieve some of the objectives I have mentioned - particularly to reverse the present trend whereby the inactive population is growing at a faster rate than the active working population.

In my paper, to which I referred earlier, I suggest that consideration be given to a new Social Security program which may be outlined as follows:

Government Retirement Benefit Age

Instead of paying benefits as early as age 62, Social Security benefits should not commence until at least age 65. As the health of the elderly improves and as the average lifespan increases, this new "government retirement benefit age" should be increased to about age 70 (beginning about 25 or 30 years from now).

Amount of Retirement Benefit

Social Security should pay a monthly benefit of a uniform amount to every resident of the country regardless of his type of employment, earnings history, marital status, financial need, or any other factor.

At present, if a person retires at age 65, the monthly benefit for him and his dependents can range from $122 to $856 for retirements after June 1978.

This new benefit should be set somewhat above the bare subsistence level so that every aged person can live without fear of deprivation of life's necessities, even if the fortunes of life should leave him with no other resources.

Disability Retirement

Some persons would be unable to work in gainful employment until attaining the new benefit age regardless of all efforts at retraining and job modification. Therefore, an appropriate disability program would have to be designed. The disability program should be separate and distinct from the age-retirement program. Such a program should place considerably more emphasis on rehabilitation and retraining than the present Social Security disability program does. All of the comments made thus far about retraining, job modification, and more sophisticated matching of individuals and jobs, are especially pertinent to the disability retirement situation.

Rationale for Simplified System

Financial security would be assured for every resident beyond the "government retirement benefit age". On the other hand, no government benefits would be provided for a healthy individual prior to attainment of this benefit age. It would clearly be the responsibility of the individual to care for himself prior to this age. If an individual chooses to care for himself prior to this age, it would be as a result of advance saving by himself or his employer. Complete freedom of choice would be afforded each person in this area of saving more and retiring earlier or saving less and retiring later.

The many advantages of such a simplified system are significant, not the least of which is the clear delineation of governmental and nongovernmental responsibility for providing for an individual's economic security throughout his lifetime. Under a system as complex as the present Social Security program, it is doubtful that a clear delineation of such responsibility will ever be possible - a situation almost certain to result in people expecting more, and thus eventually receiving more, from the government (that is, the active working taxpayers), with a consequent decline in individual self-reliance and productivity of the nation as a whole.

Changes in Employer Responsibility

Employer personnel policy and retirement practices would be considerably different under such a system. Compared with the past, the nation's employers would assume more complete responsibility for their employees until attainment of the benefit age and less responsibility, if any, thereafter.

The recent legislation which prohibits mandatory retirement before age 70 is a step in this direction of requiring more complete employer responsibility.

An employer could discharge this obligation in several ways. For example, an employer-sponsored retirement plan could pay benefits from any retirement age mutually agreed upon between the employer and the employee until the benefit age. On the other hand, the employee could remain on the job until the benefit age.

Implementation of Changes

The implementation of these changes is less difficult than it may appear, although the changes would need to be phased in over a period of perhaps 25 to 30 years. Obviously, any new system would not apply to people already receiving benefits or those who are close to retirement.

Cost and Financing of System

The cost of such an age-retirement system would be substantially lower than the cost of age-retirement benefits provided under the present Social Security program. The amount of the cost differential would of course depend upon the exact structure of the revised system and how rapidly it was phased in.

This is a very rough outline of the directions in which the Social Security program could be changed. Many details would have to be worked out. Perhaps other types of change would be preferable.

The important point is that CHANGE IS POSSIBLE.

It will not be easy for the nation to move in the direction of full utilization of its human resources and thus bring under control the rising cost of supporting the inactive population. The alternative, however, will be even more difficult: Continued high unemployment and underemployment, an ever increasing pool of idle "disabled persons" and "aged persons", and a total cost to society which will become increasingly unbearable and which will eventually become destructive.

Although the magnitude of the nation's income maintenance problems will not become evident to everyone until many years in the future, and although the solutions to these problems need not be implemented completely for another 25 to 30 years, the time to design the solutions and to begin implementing them is not the future, it is now.

MR. WHITELEY: At this time, I would like to open the discussion to comments and questions from the floor:

MR. TOY: I have a question for Haeworth. In your paper "Social Security, Prospect for Change," you state that we should place progressively less emphasis on payroll taxes and more emphasis on some sort of general revenue taxation. Could you explain why with your system you prefer general revenue financing but not with the current system?

MR. ROBERTSON: The system that I was proposing would provide more of a minimum level of subsistence. It seems to me to make more sense, if we had such a program, to assess the taxes in a different way than under the payroll tax method. I think one reason we are encountering such resistance to increased payroll taxes now under the Social Security program is that in the past people have thought of Social Security as an individual insurance and savings program. They have translated that into the thought that they are getting back more or less what they are paying for, but that is not the case. It is not a savings program and the benefits you receive are not very much related to what you pay in taxes. As people begin discovering this, there will be increased resistance to paying higher payroll taxes. The only way that people will pay higher payroll taxes is if benefits are made more proportionate to contributions.

The program I discussed in my paper provided less emphasis on benefits being related to contributions and thus I was contemplating it being financed in a different way.

There is another approach. Many people are saying let us change the program so that it has more individual equity in it. They wish to keep the payroll tax but would like to see benefits more closely related to contributions.

MR. WHITELEY: That seems to fit closely with another proposal I read recently. It is one that came from a task force on Social Security appointed by the Tax Division of the AICPA (American Institute of Certified Public Accountants). Two of the three members of the task force are accounting professors at the University of Michigan, Professors Donald R. Skadden and James E. Wheeler. An interview of Professors Skadden and Wheeler appeared in Dividends, a publication of the University of Michigan Graduate School of Business. They put forth a number of interesting proposals in this interview and I refer you to the winter 1978 issue of Dividend.

I would like to ask, as a matter of curiosity, how many of you had written your Congressmen prior to the 1977 amendments about Social Security? (3 hands raised) I have had enough response from the direct approach to our Congressional Delegation and have seen enough of a change in attitude of some of them that it has come home to me that it is a very worthwhile endeavor.