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AN ALTERNATIVE APPROACH TO UNIVERSAL SOCIAL SECURITY COVERAGE

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ABSTRACT

The Old-Age, Survivors, and Disability Insurance (OASDI) program in the United States covers about 93 percent of all workers in the paid labor force. The only major exceptions among those who have more than minimal earnings are federal civilian employees who are covered under the civil service retirement system and the approximately 26 percent of state and local government employees for whom OASDI coverage has not been elected.

Almost all students of social security agree that universal coverage of the program is desirable. First, all workers should have the basic protection that OASDI provides, regardless of their shifting back and forth between different jobs. Second, the method of computing benefits, in treating the low-paid workers more favorably, results in windfall benefits for individuals who spend most of their working lifetimes in noncovered work but who do acquire a small amount of OASDI coverage (sufficient to acquire eligibility for benefits). Such individuals are considered low-paid workers because a career-average wage is used in computing OASDI benefits. Obviously, the desirable goal of universal coverage can be achieved best by the direct method of applying compulsory coverage to the groups not now covered. However, the strong opposition to this by the groups affected makes it appear that compulsory coverage cannot be achieved. An alternative solution would involve the indirect method of adjusting OASDI benefit amounts in an appropriate manner when an individual has had noncovered employment after the effective date of the necessary legislative change. The paper suggests two procedures by which this can be done.

INTRODUCTION

THE Old-Age, Survivors, and Disability Insurance program in the United States—popularly referred to as social security—now applies to about 92 million persons in the course of a typical month or about 110 million persons during the course of a year. Such coverage (including that under the Railroad Retirement System, which

now is so closely integrated with OASDI that it rightly may be said that railroad workers are covered by OASDI) represents about 92 percent of all employment in the country.

The principal groups of individuals excluded from OASDI coverage are the following:

1. Federal civilian employees with permanent appointments.
2. State and local government employees for whom coverage has not been elected.
3. Employees of nonprofit organizations in the charitable, educational, and religious fields for whom coverage has not been elected.
4. Several relatively small categories of very low-paid workers.

Of the approximately 8 percent of workers who are not covered, the federal employee group represents 2½ percent and the state and local government employee group another 3 percent, so that the residual groups account for only about 2½ percent. Approximately 74 percent of all state and local government employees are covered under OASDI as a result of the elective procedures. The corresponding proportion for employees of nonprofit organizations is 91 percent, and about half of those not covered are part-time workers who are very low paid.

The coverage of the OASDI program has been expanded gradually until now it approaches universality, but there are still the two significant gaps involving government employees that are mentioned above. It is probably safe to say that all serious students of social security believe that universal coverage is desirable except for those whose earnings are so low or whose employment is so sporadic that compulsory coverage is not administratively feasible. The economic needs of such individuals probably are met best through public assistance programs.

In addition, various advisory councils and groups dealing with the social security program have supported strongly the general concept of universal coverage. The same also has been true of various presidents and their administrations. However, there is the important exception that, in the deliberations that preceded the 1977 act, the Carter administration did not support the House Ways and Means Committee in its decision to legislate compulsory coverage for government and nonprofit employees. Instead, it recommended, and the final legislation provided for, yet another study of the matter.

This paper first will discuss the reasons why universal coverage is desirable and the methods by which it could be achieved. Then there will be a discussion of the efforts to obtain universal coverage in the past and of the prospects for the near future. Finally, an alternative approach

to solving the most important financial problems that exist without universal coverage will be presented for consideration if, for political or other reasons, universal coverage cannot be achieved. Examples showing how this approach would operate also will be given.

DESIRABILITY OF UNIVERSAL COVERAGE

From the very beginning of the OASDI system in the mid-1930s (when there was really only an OAI program), the policy planners and policymakers have believed that universal coverage of all employed persons is the desirable goal. This belief has been held by both conservatives and liberals. For example, the Advisory Council on Social Security (1974–75) made the following statement in its report (House Document No. 94-75, March 10, 1975):

> Although social security covers over 90 percent of workers, the gaps that remain often result in unwarranted duplication of benefits. Social security coverage should be applicable to all gainful employment. Ways should be developed to extend coverage immediately to those kinds of employment, especially public employment, for which coordinated coverage under social security and existing staff-retirement systems would assure that total benefits are reasonably related to a worker's lifetime earnings and contributions.

Basically, there are two reasons why universal coverage is desirable. First, a uniform floor of protection then would be available for all workers in the country, regardless of their shifting back and forth among different jobs. Second, windfall benefits for some workers (and lack of benefits for other workers) would be avoided. Windfall benefits involve unjustifiable costs to the remainder of the covered population. They arise because of the social-adequacy aspect of OASDI, which has the effect that low-paid workers receive relatively higher benefits than high-paid workers. Workers with only partial coverage during their lifetimes are treated as low-paid workers and thus receive a windfall.

The foregoing point may be made clearer by considering an illustrative case. A man who worked in covered employment only during 1970–77, having been in federal employment during all previous years back to 1937, attained age 65 at the beginning of 1978. In all years, he had wages at least equal to the maximum taxable amount under OASDI.

His primary insurance amount (PIA) as of the beginning of 1978 was $336.50. (The PIA is the benefit payable to a worker retiring at age 65, or at an earlier age on account of disability, exclusive of any additional benefits for eligible dependents.) If, however, he had been in covered employment during the entire period 1937–77, the PIA would have been $459.80. This individual actually was covered for only eight years out

of the forty-one possible years, or slightly less than 20 percent of the time. Yet his PIA was 73 percent of what it would have been if all his employment had been covered under OASDI. The situation is not quite so striking if one considers the total employee taxes paid and accumulated at, say, 5 percent interest. These would amount to $6,297 for this case, or 43 percent of the $14,757 for an individual who worked in covered employment from 1937 through 1977 at maximum wages in all years.

Some persons have supported the concept of universal coverage under OASDI on the grounds that this would provide substantial funds in the short range to help its financing. These individuals do not look beyond the short run and do not appreciate that, over the long range, benefit outgo also would be increased. Of course, in balance a net gain to OASDI would occur under universal coverage, primarily because of the elimination of the windfall benefits. Quantitatively, such a gain represents an estimated long-range average cost savings of 0.34 percent of taxable payroll, or about 3 percent of the cost of the system.[1]

The author believes, however, that universal coverage should be sought not for any possible short-range effects in "bailing out" OASDI but rather for two long-range effects. First, there would be more equitable benefit protection for all workers who are ever employed in what is now noncovered employment. Second, there would be significant but relatively modest cost savings to OASDI. Certainly, any move to universal coverage would not be—as some opponents claim—for the purpose of transferring the accumulated reserves of existing public employee retirement systems to OASDI to bolster its finances!

METHODS FOR OBTAINING UNIVERSAL COVERAGE

The most obvious and straightforward method of obtaining universal coverage of government and nonprofit employees would be to enact legislation making it compulsory at some future date. Sufficient time should be allowed for existing retirement systems to be adjusted to coordinate with OASDI coverage.

Several difficulties with this approach are present, however, especially with regard to the coverage of state and local government employees. First, there is the question of whether it would be constitutional for the federal government to levy a compulsory tax on state and local governments as employers. For years the general feeling has been that this would not be constitutional, but currently there are some who argue otherwise.

[1] See the committee report on the Social Security Financing Amendments of 1977 (H.R. 9346) issued by the Ways and Means Committee (House Report No. 702, Part 1, October 12, 1977).

Another problem is that, in some states, constitutional bars exist against lowering any employee benefits provided by the governmental entity, not merely (and quite properly) for service rendered to date but also for future service. This restriction as it applies to future service seems to the author to be anomalous, because no similar bars apply to the more important elements of future continuation of employment and the applicable salary level. As a result, if the existing retirement system cannot be modified downward when OASDI coverage is introduced, excessively large benefits and resultingly high costs to the employer will arise.

Third, there is the practical political problem that many federal and local government employees are strongly opposed to being covered by OASDI. In part, this view is based on fears or misunderstandings. Some might believe that the choice is only between having OASDI alone or having the existing system. Others might think that OASDI is in financial difficulties and very likely will become bankrupt in the near future. Probably, however, the most important reason for this opposition to OASDI coverage is the likely loss of the windfall benefits mentioned previously!

Most of the foregoing objections can be overcome by making compulsory coverage applicable only to persons entering the present noncovered types of employment after some date in the future. The governmental entity involved then could establish a separate, well-designed, and coordinated system for this category of new entrants, and for the present employees the existing system would be unaffected. The disadvantages of this approach are the long delay before universal coverage would be achieved and the continuing objection of employee groups who feared that their system eventually would "wither on the vine" as fewer and fewer people were covered by it and therefore less attention was paid to it.

Still another approach for state and local government employees would be to levy the social security tax solely on the employees, there being no question of the constitutionality of this tax. This procedure could be based either on only the self-employed tax rate (as is done for American citizens working in the United States for foreign governments or international organizations) or on the combined employer-employee tax rate, unless the employer agreed to pay the employer tax rate. The former approach would, of course, result in lower income for OASDI and thus would affect all other workers adversely. The latter approach would be viewed as involving an excessive rate for the employees affected,

unless they could put enough pressure on their employers to share the tax voluntarily.

PAST EFFORTS TO OBTAIN UNIVERSAL COVERAGE

In the past, arguments in favor of universal coverage were put forward on the grounds that existing public employee retirement systems had weaknesses and gaps that could be filled by OASDI coverage. These arguments were countered, at least in part, by remedial changes in the public employee retirement systems. For example, when OASDI began operations in the late 1930s, the civil service retirement system for permanent federal employees had no vesting provisions and also very limited survivor benefits (only actuarially reduced pensions to provide joint and survivor annuities for death after retirement and only the refund of accumulated contributions for death before retirement). As a result of the better protection afforded by OASDI in these areas, and to counter arguments that for this reason OASDI coverage should be made applicable to federal employees, the civil service retirement system was broadened over the years to include full vesting after five years of service and monthly survivor pensions on an automatic basis for deaths in active service after one and one-half years of coverage.

Until the legislative action in 1977, Congress had considered the matter of universal coverage under OASDI only from a broad, general viewpoint. In fact, for many years Congress had extended coverage to new employment categories only when it believed that the extension was desired by those affected. For example, when self-employed persons first became covered by passage of the 1950 act, a number of categories such as farmers and professional persons were excluded on the grounds that their organizations did not seem to want coverage. Later, all the self-employed except physicians became covered because this seemed to be the emerging desire of those categories. In 1965, when medicare was enacted over the strong opposition of the medical profession, self-employed physicians became covered even though the majority of them did not seem to desire coverage.

In 1977 the House Ways and Means Committee considered measures to alleviate the financial problems of OASDI. Both for this reason and, in the author's opinion, for broader reasons, this committee reported out a bill providing for compulsory coverage of all federal, state, and local government employees (and also all employees of nonprofit organizations), beginning in 1982. Thus, sufficient time was allowed for the necessary and desirable restructuring of existing plans to coordinate

with OASDI in those instances where such coverage had not already been elected.

The Ways and Means Committee was not unanimous in taking this action, although it did so by approximately a two-to-one margin. The opposition was led primarily by Congressman Joseph L. Fisher, who represented a district whose constituents included a sizable number of federal employees. When the legislation came to the floor of the House of Representatives, Congressman Fisher offered an amendment to delete the provision for universal coverage and instead to require a study of the matter. The study would be made under the direction of the Secretary of Health, Education, and Welfare and was to be completed by December 20, 1979.

Under the rules established for consideration of the bill, Congressman Fisher's amendment also provided for additional financing for OASDI to make up for the loss arising from the deletion of universal coverage. The additional financing would be provided by two sources. First, there would be an increase of 0.1 percent in the tax rate for both employers and employees for all years after 1980. Second, in 1981 the maximum taxable earnings base would be increased by $1,800 over what the bill of the Ways and Means Committee previously had provided; such increase would be applicable in all future years and would be augmented by the effect of the automatic-adjustment provisions. Looking at the situation in reverse, these increases in the tax rates and the earnings bases are the additional costs that the covered workers would have to pay because of the absence of universal coverage.

Despite assurance from the Commissioner of Social Security[2] that this increased financing would offset the loss of the savings from universal coverage, such was not the case. There should have been additional financing equivalent to a 0.05 percent tax rate on both employer and employee.[3] Moreover, a question may be raised as to whether the savings in cost resulting from increased earnings bases was a proper means of providing the substitute financing.

Strong political pressures were generated on this issue. Federal employees particularly were incensed at the possibility of universal coverage and undertook very strong lobbying efforts in favor of the Fisher amend-

[2] As contained in memorandums of October 19 and 25, 1977, excerpted in the *Congressional Record* for October 26, 1977, p. H 11595.

[3] The memorandum of October 19, 1977, cited in n. 2 stated that the additional financing provided by the Fisher amendment was 0.09 percent of taxable payroll short of meeting the cost involved (because this was the amount of increase in the actuarial imbalance under the bill after the amendment was taken into account).

ment. In this respect, they were supported by the House Post Office and Civil Service Committee, which had partial jurisdiction over the bill because of the possible coverage of federal employees under OASDI.[4] The Carter administration, unlike several previous administrations, took a position advocating delay and study.[5] On the other hand, the American Federation of State, County, and Municipal Employees (AFL-CIO) came out strongly in favor of universal coverage.[6] When the vote on the Fisher amendment came in the House of Representatives, the amendment carried by about a ten-to-one vote.

Congress did, however, incorporate two provisions in the 1977 act that will serve to reduce windfall benefits for some government employees. First, the minimum PIA as initially determined for an individual was frozen for all future years at approximately the level that it would reach at the end of 1978 (which turned out to be $122). However, the benefit amount subsequently would be subject to automatic consumer price index increases, starting with the initial year of benefit receipt (or, if earlier, the year of attainment of age 65). This change will affect primarily those who have "moonlight" earnings of a relatively small amount, just sufficient to meet or exceed slightly the insured-status requirements.

Second, after an initial grace period of five years for women (and for men who were dependent on a female insured worker), any OASDI benefits received by an insured as a spouse are offset by the individual's pension arising from government employment (whether past or future) that was not covered under OASDI when such employment terminated. This creates comparability with the situation where a couple both work in OASDI-covered employment. Under those circumstances, the law always has provided for an offset (for both men and women) of the primary benefit based on the individual's own earnings against any spouse's benefit derived from the earnings record of the spouse.

AN ALTERNATIVE APPROACH

A very good likelihood exists that the political forces that defeated universal coverage so successfully in 1977 will continue to be effective.

[4] See the committee report on the Social Security Financing Amendments of 1977 (H.R. 9346) issued by the Post Office and Civil Service Committee (House Report No. 702, Part 2, October 17, 1977).

[5] This was contained in a letter dated October 25, 1977, from Joseph A. Califano, Jr., Secretary of Health, Education, and Welfare, to all members of the House of Representatives.

[6] This support was expressed in advertisements in several newspapers on October 25, 1977 (for example, the *Boston Globe*, the *New York Times*, and the *Washington Post*).

Any results from the study mandated by the 1977 act that show that universal coverage is both desirable and feasible may be received coolly, and thus no direct legislative action may be taken in this regard. There is, however, an alternative, indirect approach that would go a long way toward solving the significant costs of OASDI because of the windfall benefits for persons who spend most of their working lifetimes in noncovered government employment. The following discussion will relate the proposal only to government employees (federal, state, and local) because the only other group for whom coverage is not universal (nonprofit employees) is minuscule.

Government employees can argue with some logic that they do not want universal coverage because they are well satisfied with their present retirement systems. They would be hard pressed, however, to argue that the loopholes of windfall benefits should not be closed. Certainly this was true in connection with the 1977 act when, as indicated previously, two loopholes as to windfall benefits were closed successfully.

The major remaining loophole that results in windfall benefits involves retirement benefits for workers themselves. An effective way of closing this loophole would involve two steps. First, no state and local governments that now have OASDI coverage should be permitted to withdraw from the program in the future. This provision would become effective after a reasonable period, so that this "right" would not be abrogated unduly. Second, and more important, the OASDI benefits of an individual who has had employment with a governmental entity that was not covered simultaneously by OASDI should be adjusted appropriately if the individual is receiving a pension based on this government employment (or if, in the case of a survivor beneficiary under OASDI, the deceased individual would have been eligible for such a pension if living and of retirement age). This could be done with regard to all such employment, both past and future. It perhaps would be more equitable and acceptable if the procedure were phased in gradually by considering only noncovered employment for years after the effective date of the legislative change.

Specifically, the PIA under OASDI would be calculated on two bases: (1) by considering both earnings after the effective date from government employment that was not covered under OASDI and actual OASDI credited earnings and (2) by considering only such noncovered government employment. The difference between these two amounts would be the "earned" OASDI benefit based on the additional amount arising from covered employment, and this amount would be paid rather than the PIA based only on covered earnings. A somewhat similar procedure

is followed under the Railroad Retirement System with respect to service before 1975 in order to determine the extent of the windfall benefits.

In the unlikely event that the pension from the public employee retirement system (PERS) was less than the excess of the PIA based on only covered employment over the amount payable as derived under the foregoing procedure, the reduction in the PIA based only on government employment would be limited to the PERS pension.

Of course, if the individual did not have any PERS pension (because the vesting requirements had not been met or because the individual had destroyed the vesting by obtaining a refund of contributions), this reduction or offset procedure would not apply. Then, the OASDI benefit payable would be that based only on covered earnings.

Further, if the foregoing offset procedure did become applicable in a case where the individual in some years had both earnings for government service not covered by OASDI and covered earnings, a lump-sum refund of OASDI taxes should be made in some cases at the time of initial entitlement to OASDI benefits. Specifically, this should be done for those years when the combined earnings exceed the maximum taxable earnings base. Because the earnings in the noncovered government service are considered "primary" under the proposed procedure, there should be a refund of the amount of the taxes paid on covered earnings in excess of those needed to bring the earnings in the noncovered government employment up to the earnings base.

This suggested procedure perhaps can be understood best by considering certain illustrative examples. First, let us take an individual who enters employment at age 22 in the first year for which the proposal would be effective, say 1980. It is assumed that the individual retires at age 65, after having had $15,000 of earnings in all years and having been employed by a noncovered governmental entity until age 55 and then under OASDI in private employment at ages 55–64.

For all the illustrative examples, it is assumed that economic conditions remain static in future years. Thus, the PIA benefit formula in the 1977 act for the cohort of persons attaining age 62 in 1979 will continue to be applicable in all future years. Quite obviously, this will not be the case, but this simplifying assumption will produce valid *relative* results because of the stabilizing nature of the decoupling procedure under the 1977 act.

Under the present benefit provisions, such an individual would receive the relatively large PIA of $218.70 for the short period of coverage involved. Under the proposed approach, the PIA on the basis that all employment, both government and private, had been covered would be $476.40, while the PIA based solely on the government employment

would be $465.60. Accordingly, the OASDI benefit payable would be based on a PIA equal to the difference between the two foregoing figures, or $10.80.

Corresponding figures for this new-entrant case based on other combinations of noncovered government employment and private employment are shown in Table 1. These figures show that there is a reasonable grading of PIA amounts for various employment histories. It will be noted that a fairly large reduction in the PIA occurs even for those with short government service (and thus long OASDI coverage elsewhere).

TABLE 1

COMPARISON OF PIAs UNDER PRESENT LAW AND UNDER PROPOSAL
NEW ENTRANT AFTER EFFECTIVE DATE*

Years of Government Employment	Age at Separation from Government Service	Years of Subsequent Covered Employment	PIA under Present Law	PIA under Proposal	
				Presumed from Government Service	Net Payable†
5	27	38	$476.40	$160.20	$316.20
10	32	33	465.60	218.70	257.70
15	37	28	424.40	275.60	200.80
20	42	23	367.20	332.90	143.50
25	47	18	309.90	389.90	86.50
30	52	13	252.90	447.20	29.20
33	55	10	218.70	465.60	10.80

* *Assumptions:*
1. Individual enters noncovered government service at age 22.
2. Individual retires at age 65.
3. Level annual salary is $15,000.
4. Economic conditions remain static in the future.

† The excess of the PIA from covered employment and noncovered government employment combined ($476.40 in all cases) over the presumed PIA from noncovered government employment.

In most of those cases, the proposed procedure would not be applicable because no pension would be payable under the PERS, or the reduction in the PIA will not be as large as shown because of the proviso that it cannot exceed the PERS pension.

Next, let us consider an individual who is aged 50 at the time this proposal becomes effective (1980). Assume again that the individual retires at age 65 after having had $15,000 of earnings in all years and having been employed by a noncovered governmental entity until age 55 and then under OASDI in private employment until age 65. The PIA from the total employment considered (that is, all covered employment plus the noncovered government employment from 1980 on) is $275.60, while the PIA from the noncovered government employment considered

is $160.20. Thus, the PIA payable would be the difference between these two figures, or $115.40, which is well below the $218.70 payable under the present law.

Table 2 shows the results for other attained ages on the effective date, with separation from government service assumed to occur at age 55. Once again, there is a good phasing in, so that those now near retirement will not be affected too adversely by the change.

Finally, let us take the case of a full-career government employee who

TABLE 2

COMPARISON OF PIAs UNDER PRESENT LAW AND UNDER PROPOSAL PERSON SEPARATING AT AGE 55 AND ENTERING COVERED EMPLOYMENT*

AGE AT EFFECTIVE DATE	YEARS OF GOVERNMENT SERVICE CONSIDERED	PIA UNDER PRESENT LAW	PIA UNDER PROPOSAL		
			Presumed from Government Service	Presumed from Total Employment	Net Payable
22	33	$218.70	$465.60	$476.40	$ 10.80
25	30	218.70	447.20	476.40	29.20
30	25	218.70	389.80	476.40	86.60
35	20	218.70	332.90	447.20	114.30
40	15	218.70	275.60	389.80	114.20
45	10	218.70	218.70	332.90	114.20
50	5	218.70	160.20	275.60	115.40
52	3	221.90	99.00†	257.10	158.10
55	0	233.40	.....	233.40	233.40

* *Assumptions:*

1. Effective date of proposal is January 1, 1980.
2. Individual is in noncovered government service on effective date.
3. Individual remains in noncovered government service until age 55, at level annual salary of $15,000.
4. After separation from noncovered government service, individual enters covered employment and remains until age 65, at level annual salary of $15,000.
5. Economic conditions remain static in the future.

† Before application of the $122 minimum.

moonlights just enough at ages 55–64 to qualify for the minimum OASDI benefit. Consider such an individual aged 50 at the effective date of the proposal (1980) who has an annual salary of $15,000 at ages 50–64 in noncovered government employment and who earns the minimum OASDI requirement of $1,000 per year at ages 55–64 to obtain forty quarters of coverage. Under present law, the minimum PIA of $122 would be payable. Under the proposal, the PIA actually payable would be $7.70 (representing the excess of the PIA based on the total of covered earnings and noncovered earnings after 1979 over the PIA based on noncovered earnings after 1979, that is, $283.30 minus $275.60).

Table 3 presents the results for other cases of minimum moonlighting for different attained ages on the effective date. Quite reasonably, the proposal results in relatively small OASDI benefits in all cases, but with some grading in for those now near retirement age.

A SIMPLIFIED ALTERNATIVE APPROACH

The foregoing proposal might be subject to criticism as being too complicated and therefore difficult for the public to understand. Accordingly, a simplified approach has been developed. It is less effective and perhaps less justifiable theoretically.

TABLE 3

COMPARISON OF PIAS UNDER PRESENT LAW AND UNDER PROPOSAL PERSON MOONLIGHTING AT AGES 55–64*

Age at Effective Date	Years of Government Service Considered	PIA under Present Law	PIA under Proposal		
			Presumed from Government Service	Presumed from Total Employment	Net Payable
30 or under	35	$122.00	$476.40	$479.80	$ 3.40
35	30	122.00	447.20	453.10	5.90
40	25	122.00	389.80	397.60	7.80
45	20	122.00	332.90	340.60	7.70
50	15	122.00	275.60	283.30	7.70
55	10	122.00	233.40	242.00	8.60
60	5	122.00	181.20	191.50	10.30
62	3	122.00	140.40	165.20	24.80
64	1	122.00	50.40†	84.60†	34.20

* *Assumptions:*

1. Effective date of proposal is January 1, 1980.
2. Individual is in noncovered government service on effective date.
3. Individual remains in noncovered government service until age 65, at level annual salary of $15,000.
4. Individual has moonlighting employment at $1,000 per year at ages 55–64 (if individual is over age 55 on effective date, moonlight earnings in the past were such as to be indexed up to $1,000 per year).
5. Economic conditions remain static in the future.

† Before application of the $122 minimum.

The procedure would involve using as the PIA the smaller of (1) the amount based on actual covered earnings and (2) the amount based on the total of noncovered government earnings after the effective date and actual covered earnings, but reduced by multiplying the PIA by the ratio of total actual covered earnings (after indexing) to the total of noncovered government earnings after the effective date and actual covered earnings (both after indexing). However, no such government earnings would be used in excess of those necessary each year to bring the actual covered earnings up to the maximum taxable earnings base.

Unlike the previous proposal, this approach would not necessitate considering whether the individual is receiving a PERS pension or is entitled to a refund of excess OASDI taxes.

As an illustration of how this simplified procedure would operate, consider again the new entrant at age 22 in 1980 who earns a $15,000 salary in all years and who separates from noncovered government employment at age 55 and then is in covered private employment until age 65. The total covered earnings are $150,000, and the total of noncovered government earnings and covered earnings is $645,000. The PIA

TABLE 4

COMPARISON OF PIAs UNDER PRESENT LAW AND UNDER SIMPLIFIED PROPOSAL
NEW ENTRANT AFTER EFFECTIVE DATE*

Years of Government Employment	Age at Separation from Government Service	Years of Subsequent Covered Employment	PIA under Present Law	PIA under Proposal	
				Presumed from Total Employment	Net Payable†
5	27	38	$476.40	$476.40	$421.00
10	32	33	465.60	476.40	365.60
15	37	28	424.40	476.40	310.20
20	42	23	367.20	476.40	254.80
25	47	18	309.90	476.40	199.40
30	52	13	252.90	476.40	144.00
33	55	10	218.70	476.40	110.80

* *Assumptions:*

1. Individual enters noncovered government service at age 22.
2. Individual retires at age 65.
3. Level annual salary is $15,000.
4. Economic conditions remain static in the future.

† The presumed PIA based on total covered employment and noncovered government employment combined, multiplied by the ratio of total covered earnings to the total of earnings in both covered and noncovered employment.

based on this total of noncovered and covered earnings is $476.40, which is multiplied by the ratio of $150,000 to $645,000. This yields $110.80, which is the amount payable because it is less than the $218.70 based on covered earnings alone.

Tables 4–6 present illustrative examples of how this simplified procedure would operate for the same cases as considered in Tables 1–3, respectively. Although the effects on the windfall benefits would not be as large, substantial results nonetheless would be achieved.

CONCLUSIONS

The desirable goal of universal coverage under OASDI can be achieved best by the direct method of applying compulsory coverage to the groups

TABLE 5

COMPARISON OF PIAs UNDER PRESENT LAW AND UNDER SIMPLIFIED PROPOSAL PERSON SEPARATING AT AGE 55 AND ENTERING COVERED EMPLOYMENT*

AGE AT EFFECTIVE DATE	YEARS OF GOVERNMENT SERVICE CONSIDERED	PIA UNDER PRESENT LAW	PIA UNDER PROPOSAL	
			Presumed from Total Employment	Net Payable†
22	33	$218.70	$476.40	$110.80
25	30	218.70	476.40	119.10
30	25	218.70	476.40	136.10
35	20	218.70	447.20	149.10
40	15	218.70	389.80	155.90
45	10	218.70	332.90	166.50
50	5	218.70	275.60	183.70
52	3	221.90	257.10	197.80
55	0	233.40	233.40	233.40

* *Assumptions:*

1. Effective date of proposal is January 1, 1980.
2. Individual is in noncovered government service on effective date.
3. Individual remains in noncovered government service until age 55, at level annual salary of $15,000.
4. After separation from noncovered government service, individual enters covered employment and remains until age 65, at level annual salary of $15,000.
5. Economic conditions remain static in the future.

† The presumed PIA based on total covered employment and noncovered government employment combined, multiplied by the ratio of total covered earnings to the total of earnings in both covered and noncovered employment.

TABLE 6

COMPARISON OF PIAs UNDER PRESENT LAW AND UNDER SIMPLIFIED PROPOSAL PERSON MOONLIGHTING AT AGES 55–64*

AGE AT EFFECTIVE DATE	YEARS OF GOVERNMENT SERVICE CONSIDERED	PIA UNDER PRESENT LAW	PIA UNDER PROPOSAL	
			Presumed from Total Employment	Net Payable†
22	43	$122.00	$479.80	$ 7.30
30	35	122.00	479.80	9.00
35	30	122.00	453.10	9.90
40	25	122.00	397.60	10.30
45	20	122.00	340.60	11.00
50	15	122.00	283.30	12.10
55	10	122.00	242.00	15.10
60	5	122.00	191.50	22.50
62	3	122.00	165.20	30.00
64	1	122.00	122.00	48.80

* *Assumptions:*

1. Effective date of proposal is January 1, 1980.
2. Individual is in noncovered government service on effective date.
3. Individual remains in noncovered government service until age 65, at level annual salary of $15,000.
4. Individual has moonlighting employment at $1,000 per year at ages 55–64 (if individual is over age 55 on effective date, moonlight earnings in the past were such as to be indexed up to $1,000 per year).
5. Economic conditions remain static in the future.

† The presumed PIA based on total covered employment and noncovered government employment combined, multiplied by the ratio of total covered earnings to the total of earnings in both covered and noncovered employment.

not now covered. However, it seems quite likely that this cannot be achieved in the real political world in which we live. A large part of the problem can be solved indirectly, by adjusting the OASDI benefit amounts appropriately when individuals have had noncovered employment. Two procedures have been suggested, both of which consider only noncovered employment after the effective date of the legislative change. For reasons of practicality, the simpler but less effective method, involving proration of the benefit based on total covered and noncovered earnings, seems preferable to the other method, which involves determining the "earned" benefit.

DISCUSSION OF PRECEDING PAPER

CLAUDE Y. PAQUIN:

When representing social security claimants, I sometimes have been called upon to read the statutory provisions comprising Title II of the Social Security Act of 1935, as amended. Title II bears the caption "Federal Old-Age, Survivors, and Disability Insurance Benefits" and purports to describe the benefits provided under the act. I find that it is virtually impossible to understand this material completely.

I think it is a most important requirement of our constitutional system of government that our citizens be able to ascertain the benefits to which the law entitles them and to verify the correctness of the benefit determinations made by civil servants. This can be done only if intelligible and rational benefit descriptions can be found in the statutes and regulations.

I commend Mr. Myers for his understanding of the subject and for his efforts to bring about what he perceives as a politically feasible improvement. However, in my opinion he should not have dismissed so easily the possibility of universal coverage. The proposed alternative would add another complex step to the administrative process. Complex schemes create a need for hordes of civil servants and bring those who conceive these schemes into public disrepute. Let us hope that actuaries are not given too much credit for such schemes.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

Mr. Paquin raises several significant points with regard to the social security system in general and to my alternative proposal in the event that universal coverage cannot be obtained. First, I should like to emphasize that I am strongly in favor of universal coverage as the direct means for solving the problem. However, in the event that this is not politically attainable—and I strongly doubt that it is—then a "next best" course of action is preferable to maintaining the present situation.

Mr. Paquin criticizes adversely the complexity of the present social security system and accordingly objects to my proposal as further complicating the situation. I agree that the program is complicated, but I would argue that this is also the case with many private pension plans. Moreover, in our complex social and economic world there are many things (such as automobiles and television) that the average citizen enjoys, even though he does not understand how they work.

Mr. Paquin asserts indirectly that the social security system has huge administrative costs (in his reference to "hordes of civil servants"). It is noteworthy in this respect that the administrative expenses of the OASDI system are currently running at only about 1.5 percent of benefit outgo.

Finally, I would like to supplement my paper by discussing what could be done about the windfalls arising under the hospital insurance (HI) portion of medicare if universal coverage is not obtained. Currently, individuals who spend most of their working lifetimes in noncovered employment can obtain HI coverage equal to that of persons who spend their entire working lifetimes in covered employment at high wages, merely by obtaining, on a moonlight basis or after early retirement, a relatively small number of quarters of coverage at low covered earnings. Further, an individual who has never been in covered employment can obtain full HI benefit protection from the earnings record of his or her spouse, if the spouse has been in covered employment.

The problem of preventing windfall benefits in the HI program is much more difficult to solve than the similar problem with regard to OASDI. The problem is not so great in the case of federal employees, because the full program of health benefits that was available during active service continues after retirement, so that the addition of HI coverage does not provide very much additional protection. State and local employees, however, might find that windfall HI benefits could be very valuable.

One possible solution would be to have a premium charge for persons who become eligible for HI and who have earnings in noncovered employment after some future effective date. This premium could be based on the total employee HI taxes (without interest) that the individual would have paid on noncovered earnings after the effective date if he or she had been in covered employment. The premium, on a very rough basis, might equal 10 percent of such total unpaid employee HI taxes (the 10 percent factor reflecting, approximately, an annuity value at age 65 or at disablement for those having HI protection as long-term disabled beneficiaries). Of course, such determined premium rate for HI protection should not be allowed to exceed the voluntary HI premium rate for individuals who do not have insured status under OASDI or railroad retirement.