RECORD OF SOCIETY OF ACTUARIES
1980 VOL. 6 NO. 4

SOCIAL INSURANCE TOPICS

Moderator: DWIGHT K. BARTLETT, III. Panelists: ROBERT J. MYERS, JAMES R. SWENSON, PIERRE W. TREUIL

1. Financial Stability of Old-Age, Survivors, and Disability Insurance (OASDI) System and Canada/Quebec Pension Plan (C/QPP)

2. General Revenue Financing of OASDI and C/QPP

3. Proposals to Revise Benefit Structure of OASDI and C/QPP and Mandatory Minimum Pensions

MR. DWIGHT K. BARTLETT, III: The panel this morning is composed of Mr. Robert J. Myers, who was Chief Actuary of the Social Security Administration from 1947 to 1970 and is Professor Emeritus of Actuarial Science at Temple University; Mr. James R. Swenson, who is Vice President and Actuary of Prudential Insurance Company; and Mr. Pierre W. Treuil, who is Director of the Canada Pension Plan in the Federal Department of Insurance.

MR. ROBERT J. MYERS: I shall here deal only with the short-range financing problems of the OASDI system.

When the 1977 Amendments were enacted, it was widely believed that there would be no cash-flow problems for at least the next 30 years, although there would be a rather close balance of income and outgo until 1985, when the tax rate would increase significantly (after a previous significant rise in 1981). However, this was based on the assumption that wages, which affect the amount of tax income, would rise somewhat more rapidly than prices, which affect the level of the benefits for those on the roll. This seemed to be a reasonable assumption in 1977.

The actual experience of the economy in the last few years has, unfortunately, not been favorable. Prices have risen more rapidly than wages. One bit of good news, however, was that the disability experience has been favorable, and in fact the number of disabled-worker beneficiaries on the rolls ceased its previously steady rise and actually has decreased ever since mid-1979. The net result has been that the OASI Trust Fund was estimated in the 1980 Trustees' Report to reach a level too low to meet current outgo needs in mid-1981 under the intermediate estimate and even earlier in 1981 under the pessimistic estimate. On the other hand, under all estimates, the DI Trust Fund was shown to have a steady, large growth in the near future (and, in fact, for the next 75 years). Based on forecasts made in mid-1980, the economic conditions that seem most likely in the near future are quite close to those used in the pessimistic estimate.

Accordingly, it seemed essential that Congress should take some action in 1980, and it did enact stop-gap legislation recently. What was done was to reallocate the OASDI tax rates for 1980-81 as between the OASI and DI Trust Funds, giving the former more and the latter less, but not affecting the total rates. Specifically, the combined employer-employee rate of 10.16%

for 1980 is now allocated 9.04% for OASI and 1.12% for DI, a shift of .38% more to OASI. Similarly, the 1981 rate of 10.7% is allocated 9.4% for OASI and 1.3% for DI, a shift of .35% more to OASI.

The result of this legislation is that, almost certainly, both trust funds will have ample funds to meet the cash flow during 1981. However, the OASI Trust Fund will, nonetheless, have cash-flow problems in 1982. Accordingly, it is essential that Congress take some action in 1981 to solve the short-range financing problem.

Several solutions are possible. All of them involve a further reallocation of the OASDI tax rate as between OASI and DI for years after 1981 and authority for inter-fund borrowing among the OASI, DI, and HI Trust Funds, repayable with appropriate interest. Because the HI Trust Fund will have ample funds for at least the next five years, according to the presently scheduled tax rates, such inter-fund borrowing will apparently be adequate to meet the cash-flow requirements of all three trust funds through at least 1983 (and, if economic conditions are favorable, for many years thereafter).

Also, as a last-resort measure, authority might be provided for the trust funds to obtain loans from the General Treasury, repayable with appropriate interest. It would be anticipated that this authority would not be likely to be used, except under very adverse conditions.

The Advisory Council on Social Security recommended, in addition, that the Hospital Insurance program should be financed entirely from general revenues and that part of the HI tax rate should be shifted to OASDI (and the remainder be eliminated). The Advisory Council also recommended that part of the unduly large *ad hoc* increases in the maximum taxable earnings base in 1979-81 legislated by the 1977 Act should be eliminated for the future.

The National Commission on Social Security, by a divided vote, is recommending somewhat similar action. It, however, proposes that only half of HI be financed from general revenues, and that the combined OASDI-HI tax rate be left unchanged for the next few years, with the OASDI rate being increased as the HI rate is reduced.

For reasons which will be given subsequently, I think that any general-revenue financing of the OASDI-HI system is undesirable. Instead, I believe that the best solution is to advance part of the scheduled increase in the 1985 tax rate to 1983. At the same time, there should be the authority for inter-fund borrowing and the holding-down of the increases from year to year of the maximum taxable earnings base.

MR. JAMES R. SWENSON: My comments on the financial stability of the Old-Age, Survivors and Disability Program will be primarily directed to the long term.

To properly understand and discuss the financial stability of social security, it is important to recognize that the program is an intergenerational transfer program financed essentially on a pay-as-you-go basis. That is, money to purchase goods and services is collected through taxes and is transferred from the current generation of wage earners to those who are no longer wage earners because of age, disability or death. Since it is an intergenerational transfer program, the financial stability of social security depends on the willingness of the public and their elected representatives to pay taxes to support the benefits that have been promised.

There is an implicit social contract between generations to pay for the promised benefits. However to assure that this social contract remains viable, benefit promises must be reasonable and the predicted financial consequences of the benefit promises must be fully understood by the public and their elected representatives.

There is a major demographic challenge that will create tremendous pressures on this implicit social contract unless current benefit promises are modified. I'm certain this audience is aware of the bulge in the distribution of the U.S. population created by the baby boom and the subsequent baby bust. When the baby boomers reach retirement age, there will be fewer persons of working age available to support the intergenerational transfer. Improvements in mortality, particularly post retirement mortality, will compound this problem.

For example, there are currently approximately ten workers to support the benefits of every three social security beneficiaries. That relationship is expected to change to six workers for every three beneficiaries by 2030 when the baby boom generation has retired. This fact will place a tremendous burden on the active work force to support the benefits promised those beneficiaries.

As the social security program matures, and as the demographic bulge in our population ages, it will become apparent that the days of the "free lunch" under the social security program will be ending and the willingness of the workers to support promised benefits will be thoroughly tested. Let me explain this controversial statement.

The first generation of workers covered by social security did not choose to provide income transfers to their parents other than through means tested welfare programs. Instead, they were deluded into thinking that they were participating in an insurance program that was being funded by their contributions, a euphemism for taxes. In fact, when they retired they received the taxes they paid back very quickly in the form of benefits. This process, aided by the addition of new groups to participate in the program, by gains in economic productivity, by the perpetuation of the insurance myth, and by a population distribution that was not mature, continued for the next generation of workers and they chose to substantially expand their own coverage to be paid for by future generations.

As an example of the "free lunch", average wage earners now retiring receive their OASI contributions back in approximately 13 months. Those retiring 10 years from now will receive their OASI contributions back in less than 2 years.

The current generation of young people senses that this process, like a chain letter, or a pyramid club, cannot be continued forever. Ultimately, there is going to be a time when the full price of the lunch, and perhaps then some, will have to be paid. This is one of the reasons that surveys indicate that young people have little confidence that promised benefits will be paid. Therefore, since there is a need for a viable social security program, it is important that benefit promises and their required level of financing be reasonable.

The role of the Office of the Actuary is extremely important to the process of determining benefit promises that the public will be willing and capable of supporting. A primary manner in which the Office of the Actuary contributes

to this process is through the preparation of the financial projections that are included in the annual Trustees' Report. In addition to the short term financial projections included in those reports, long term projections are made of income and disbursements for periods of 25, 50 and 75 years. These projections are made based upon three sets of assumptions: optimistic, intermediate, and pessimistic.

If the projected income based upon the intermediate assumptions falls within 5 percent of the projected disbursements, the program is said to be in "close actuarial balance". The 1980 Trustees' Report indicated an average deficit of approximately 1½% of taxable payroll over the 75-year period. Even though this deficit fell outside the 5% "close actuarial balance" corridor, little publicity was given to this fact in view of the more immediate short term financing problems.

It is my opinion that projections of this nature are useful, but they tend to obscure facts that should receive more publicity. Since the social security program is financed essentially on a pay-as-you-go basis, publicity should be given to future projections of benefits, at given points of time, expressed as a percentage of taxable payroll. These projections should include not only OASDI benefits but HI benefits as well. This would serve as an indication of the total percentage of taxable payroll that active workers will be required to pay to support current benefit promises. More publicity should also be given to the assumptions which are employed in making the projections.

Fortune Magazine provided this type of information in an article printed in its August 25, 1980 issue. That article indicated that by the year 2030, social security benefits are expected to exceed 25% of taxable payroll, based upon the intermediate assumptions, or 36% of taxable payroll, based upon the pessimistic assumptions. The article also quoted pension experts as indicating that the intermediate assumptions were very optimistic.

Setting aside the discussion of assumptions, it should be apparent that long term social security benefit promises need to be revised. If these benefits are not revised, future payroll taxes will have to be two or three times as large as those that the public is currently objecting to. It does not seem wise or equitable to commit our children and grandchildren to pay levels of taxes that we ourselves are unwilling to pay.

MR. PIERRE W. TREUIL: To date, the 3.6% combined employer-employee contribution rate charged under the Canada and Quebec Pension Plans has been more than sufficient to pay all expenditures, resulting in the accumulation of substantial funds of some $17.9 billion under the CPP and $6.6 billion under the QPP as of August 31, 1980. These represent roughly ten times current annual expenditures under the Plans. However, the expenditures expressed as proportions of contributory earnings have been steadily increasing since the inception of the Plans in 1966. They will continue to increase for another 30 years as the Plans mature, and for some 20 years thereafter as the baby boom generation retires. After the year 2030, such current cost rates are expected to more or less level off for a period of time, perhaps in the neighborhood of 9% to 11% of contributory earnings according to the latest statutory actuarial reports on the C/QPP. Hence, while there is no doubt of the ability of the Plans to meet their obligations in the short-run future, it has always been recognized that the 3.6% contribution rate will not be sufficient indefinitely, even though, to date, there has been no

provision in the legislation for its eventual increase. It has been estimated that if the rate should not be increased the funds would peak in the early Nineteen Nineties and disappear in the early years of the next century.

While it may be taken for granted that there is universal agreement that the contribution rate will eventually have to be significantly increased, there is still considerable disagreement as to the size, timing and objective to be served by such increase.

A number of persons fear that the low current costs and contribution rate under the Plans lull the public and the politicians into a false sense of security, that the current generation is providing benefits for themselves that will have to be paid for by future generations, and that the relatively high long-run costs of the Plans caused both by the maturity of the benefit structure and the increasing ratio of the aged to the working population will place a very severe burden on future generations, especially if the low current costs induce excessive benefit liberalizations.

One solution, proposed to these problems by Ontario a few years ago, is to fund substantially the CPP in the near future by significant increases in the contribution rate, the monies to be invested in the private sector under the aegis of the participating provincial governments, with a view to increasing the capital stock and the long-term economic product of the nation. It is argued that such a program would have the advantages of imposing a fairer share of the burden on the current generation to finance its own benefits, discouraging undue liberalizations of the Plan by increasing public awareness of the costs involved, and reducing the effective burden on future generations by increasing the economic product from which CPP benefits will eventually have to be paid regardless of the method of financing.

Others disagree strongly with this approach. While recognizing that CPP current costs will be much higher in the future than at present, and as such represent a burden on future generations, they feel that other costs, such as supporting the young, may be lower, or that the economy will grow sufficiently of its own accord to meet future costs. They argue that measures such as substantially funding the CPP with a view to increasing future economic product may be unfair to the current generation, unless it can be shown in total, not just in the CPP context, that future generations will be inequitably treated relative to the present generation if such measures are not taken. They might also argue that even if a presumptive need can be established in favor of dramatic action to increase the future economic product, it does not follow that substantial funding of the CPP is the best approach, since it would involve a somewhat inflexible generation of vast amounts of money that at times may be difficult to invest, and perhaps an effective transfer of large amounts of capital from private to government control. It is not even certain that such forced public saving would achieve the desired goal of ultimately increasing the economic product. Persons holding such views would tend to favor a gradual evolution of the CPP to a pay-as-you-go system of financing accompanied by a gradual reduction in the importance of the fund presently accumulated under the Plan.

Aside from the two options of substantial funding with a view to generating capital stock and improving economic product on the one hand, and pay-as-you-go financing on the other, and all sorts of intermediate options, there is a third distinct option that has to be taken into account, concerned with provincial government financing. As required by law, practically all funds accumulated under the CPP have been lent to the provinces at relatively favorable interest rates, to be used by the provinces as they see fit. This has resulted in a substantial net cash flow to provinces over the years. By net cash flow is meant new loans to the provinces less interest paid on outstanding loans. For example, in 1979 the net cash flow amounted to $740 million. It has been declining in recent years and will continue to decline as long as the contribution rate is not increased. For illustrative purposes, if a quasi pay-as-you-go option were adopted consisting of keeping the contribution rate constant at 3.6% until the CPP fund peaks in the early Nineteen Nineties, with the rate gradually increasing thereafter so as to maintain the fund substantially constant in dollar terms, but of decreasing value in real terms, this positive net cash flow of $740 million might turn into a negative one of $2.5 billion in less than 15 years. While the provinces may, or may not, be prepared to accept that this net cash flow will eventually have to become negative, they may wish to retard this process as long as possible and insist upon a more rapid increase in contribution rates which may make conversion to pay-as-you-go financing very difficult. At the same time such Provinces may not support the Ontario option of substantially increased contribution rates, with funds lent to the provinces earmarked for investment purposes, since they may prefer to have no strings attached to the use they make of the funds. The advantage of this third option, using CPP generated funds as a supplement to provincial taxation, is that it provides a relatively easy source of funds to the provinces. One disadvantage is that it is difficult to justify indefinite use of CPP generated funds for this purpose.

Hence, we seem to be left with three pivotal options which might be described as 1) de-emphasis on the fund with a gradual conversion to pay-as-you-go financing, 2) increased funding emphasis with a view to using the funds to increase capital stock and the economic product, probably under provincial government aegis, and 3) some funding emphasis with a view to using the funds for general provincial government financing.

The situation in Quebec is somewhat different, not that the theoretical considerations are essentially dissimilar, but that the weights applied to various arguments may not be the same. From the inception of the QPP it was the avowed purpose to use excess funds accumulated under the Plan, via the 3.6% contribution rate, to invest in Quebec to assist in the economic development of the province. A large part of the funds has been invested in the private sector in Quebec and may have helped foster economic development. A large part of the funds has also been used to purchase bonds of the province. Whether this has helped economic development depends upon what would have happened if this source of financing had not been available to the province, and is probably impossible to determine. Incidentally, the same sort of remark might be made about the CPP investment strategy to date of lending its funds to participating provinces.

Now that expenditure levels under the QPP are gradually approaching contribution levels, the question naturally arises whether Quebec will significantly increase its contribution rate so as to continue generating substantial funds for economic development or other purposes or de-emphasize the fund

accumulating role of the QPP. The Report of the Government appointed COFIRENTES committee released several years ago included several suggestions for the QPP, among them a proposal for increasing the contribution rates with a view to generating a sufficient fund to see the province through the critical years of the next century when the baby boom reaches retirement age without requiring substantial contribution rate increases at that time. This may be viewed as a proposal to establish a substantial but temporary contingency fund. However, no official action has been taken to date on the COFIRENTES proposals and it is difficult to state to what extent, if any, they reflect current political thinking in the province. For the moment at least, whatever level of funding is eventually decided upon, it seems likely that QPP investment strategy will remain similar to what it has been in the past.

While the CPP and QPP are separate plans, considerable efforts have always been made, and will likely continue to be made, to keep them reasonably similar in contribution and benefit structure. Hence, while different contribution philosophies may be proposed from time to time for the two Plans, there are likely to be serious negotiations between the different governments involved to see if some compromise solution is not possible.

MR. BARTLETT: Are there any questions from the floor concerning this first topic?

MR. SAMUEL ECKLER: A discussion of the Canadian social security scene should not be limited to the CPP. Two other programs are important also and their future costs need to be considered. One is the Old-Age Security system for which the benefit levels are almost as high as the C/QPP benefits. The OAS program is financed entirely with general revenues but the program does involve an intergenerational transfer and, therefore, should be included in projections of future costs. The second important program is the comprehensive medical system in Canada and many of the provinces through which many people over age 65 have their medical care financed. This program also involves an intergenerational transfer.

MR. TREUIL: I intend to touch briefly on other programs in discussing general revenue financing. I personally agree that long-term projections of the burden on future generations should include all elements. Because a program is financed from general revenues does not make long-range projections unnecessary.

MR. DAVID W. REIMER: Mr. Myers commented that the disability experience had improved recently. Have any investigations determined the cause of this improvement?

MR. MYERS: Prior to the enactment of the 1977 Amendments, the experience under the Disability Insurance program had been quite adverse. The disability incidence rate had risen sharply. However, as the data becoming available showed, the experience turned around in 1976, and the number of new entrants each year has been steadily decreasing (despite a somewhat larger insured population).

Thus, in 1979, the number of new awards was 30% lower than in 1975. Furthermore, the 1980 experience to date is about 8% lower than the 1979 experience.

As a result of the decrease in the number of new entrants and of some increase in the number of recoveries, the total number of disabled-worker beneficiaries on the roll has been decreasing in recent months. A peak was reached in July 1979, and since then there has been a decrease of about 20,000.

Why did this more favorable disability experience occur? In my opinion, it was because the Social Security Administration had previously been rather lax in administering the program (in part, at least, because of insufficient funds being made available for this purpose), and Congress had put considerable pressure on it to improve the situation. It is noteworthy that despite the worsening economic conditions and employment in the past year, there has been no upsurge of disability awards.

MR. BARTLETT: The next topic to be covered is general revenue financing.

MR. MYERS: I believe that the financing of the social insurance portions of the U.S. Social Security program should continue to be solely from payroll taxes -- and not from any general revenues taxes, whether or not specifically earmarked. It is true that general revenues are involved in the receipts of the three trust funds supported by payroll taxes (OASI, DI, and Hospital Insurance), but general revenues financing on a permanent basis of these programs is not involved.

The Supplementary Medical Insurance portion of Medicare is financed to a significant extent (roughly 70%) by payments from general revenues, but this is not a social insurance program -- rather, it is subsidized voluntary insurance. As such, it is only natural and proper that there should be financing from a source other than the enrollees, and such other source can only be the General Fund of the Treasury.

As to the social insurance portions of the social security program--OASI, DI, and HI--the small portion of the income of the trust funds that comes from the General Fund of the Treasury is either for special small closed groups of persons or as the matching employer tax with respect to covered employees of the Federal Government. The interest income on the invested assets cannot properly be considered as a subsidy from general revenues, because, if the trust funds did not hold these investments, then the same amount of interest would have to be paid to the private investors who held them.

Complete financing of the social insurance portions of social security on a long-range, ongoing basis is desirable so as to make the cost apparent and clear to the general public. The injection of a government subsidy, whether from earmarked taxes or from such general funds as are available, would lead many uninformed persons to believe that "somebody else is paying for their benefits" and would therefore lead to demands for ever-larger benefits.

It is often argued that the social security payroll taxes are regressive and bear too heavily on low-income workers, whereas other taxes that might be used for the financing of the program are more progressive. Actually, when both social security taxes and benefits are considered as a whole, the combination is not regressive, because 1) the tax is proportional up to the earnings base, 2) the benefits are heavily weighted in favor of the lower paid, and 3) the benefits and taxes are the same for all workers at and above the earnings base.

Perhaps even more important in this connection, the incidence of taxes cannot really be accurately measured. Any change in the tax structure will, after a short period of time, be accompanied by a readjustment of the national incomes and remuneration structure. Thus, for example, placing a new tax on employers will shortly result in a reciprocating readjustment of the price and/or wage structure. Similarly, an increase in the income tax rate for those with high earnings will result in a change in the structure of salaries, fringe benefits, and fees of self-employed persons.

Thus, the financing of the social insurance portions of the social security program by other than payroll taxes will actually result in a shifting of taxes, so that it cannot be said for certain whether the actual incidence of the taxes is significantly different from the impact of increased payroll taxes. As a matter of fact, it cannot really be determined who now actually pays the employer payroll taxes. Some argue that these are borne entirely by the workers through lower wages, while others assert that they are met through higher prices (which, in turn, are paid in large part by the covered workers). In actuality, there is no way of precisely measuring this matter, or even coming close to doing so.

On the other hand, if new taxes are not levied to meet the cost of a government subsidy to the social security program, this would only add to the budget deficit. The result would be increased inflation, so that people would pay for the government subsidy in that manner. Certainly, direct and visible payroll taxes are a better, more honest way to finance the social security program.

Moreover, we must recognize that the General Fund of the Treasury does not now have any surplus of monies available to provide the government subsidy to the social security program. Therefore, any general revenues to finance such subsidy must come either from new taxes on the taxpayers of the nation or else by deficit financing, with resultant augmented inflation.

It is sometimes proposed that 50% of the cost of the HI program be met from general revenues, beginning in 1983. This means that about $19 billion of government subsidy would be involved in the initial year and increasing amounts each year thereafter. Where will all of this money come from?

In summary, then, the whole matter of how to finance the social insurance portions of the social security program comes down to the psychological and public relations aspects of the situation, rather than actuarial or economic ones. The public should be economically mature enough to recognize and face openly the costs of the social security program, rather than to have them diffused and disguised--although not decreased--by having some of them met from other sources than payroll taxes. The social security program is a good one, and it thus necessarily must involve significant costs. Let us face them directly through visible payroll taxes, and not deceive ourselves through partial financing by general revenues.

MR. SWENSON: There are a number of proposals that recommend the use of general revenues to finance social security benefits. Beginning as early as 1938, various advisory councils have recommended that general revenues be used to finance some portion of the benefits. For example, the 1938 council recommended that general revenues eventually finance one-third of the benefits. This recommendation has the current support of a number of groups representing senior citizens.

Since 1965, advisory councils have recommended that various portions of Medicare benefits be financed by general revenues. Hospital Insurance benefits are primarily financed by payroll taxes. The most recent advisory council recommended that HI benefits be financed by an earmarked portion of the income tax.

Russell Long, Chairman of the Senate Finance Committee and Al Ullman, Chairman of the House Ways and Means Committee, have both advocated using some portion of a value added tax to finance social security benefits. A value added tax is essentially a national sales tax that is collected at each stage of production of goods and services. There is very little public or congressional support for such a tax, but if you were to choose only two people to promote a new tax, these two gentlemen would be the ones to choose. Incidentally, Chairman Ullman's support for the value added tax has diminished considerably since he is running for re-election in Oregon, a very independent state, and one that does not yet have a sales tax.

Another approach that constitutes backdoor general revenue financing of social security is the tax credit approach recommended by the Administration. Their tax credit proposal would rebate 8% of the social security tax to both employees and employers. The 8% rebate was chosen by the Administration as that represents the approximate portion of the payroll taxes attributable to the payroll tax rate increase scheduled to go into effect in 1981.

There are a myriad of other proposals to introduce general revenues to finance social security. Some advocate that general revenues should be used to finance that portion of the benefits that are designed to provide "social adequacy". Another related recommendation involves the proposal to adopt a two-tier benefit structure similar to that employed in Canada and the United Kingdom. The first tier would be a demogrant, that is, a uniform monthly benefit payable to every citizen who reaches a certain age. The second tier would be an earnings related benefit. Social adequacy would be provided by the first tier, individual equity would be provided on the second tier. The first tier would be financed by general revenues as is done in Canada. Interestingly, both tiers of the British program are financed by payroll taxes.

There is opposition from most business groups to general revenue financing of social security benefits, particularly the wage related benefits of OASDI. Several arguments are made in support of the continuation of equally shared payroll taxes.

First, there is an important relationship between payroll taxes and the benefits. This relationship helps to support the perception that benefits are paid as a matter of earned right. The introduction of general revenues could possibly lead to the introduction of a needs test as is used for most other programs supported by general revenues.

Second, the use of the easily identifiable and visible payroll tax helps to impose an important fiscal discipline on our elected representatives. If someone proposes that benefits be increased, the means to finance the benefits must be found. The social security program does not currently have the legislative or financial capability to operate in a deficit position for extended periods of time.

Third, the introduction of general revenues would ultimately necessitate additional general revenue taxes and would not result in any overall reduction

in taxes as benefit commitments must be met. While it would be possible to increase the already tremendous deficit in the short run, this would be inflationary and would further weaken the U.S. economy and the value of the dollar. Deficit financing also defers the incidence of costs to future generations.

Finally, business groups are not the only constituencies to favor payroll tax financing of social security. The nationwide survey of attitudes toward social security, recently conducted for the National Commission on Social Security, found that approximately twice as many people favored payroll tax financing as compared with Federal income tax financing.

MR. TREUIL: Social security for the aged in Canada is not restricted to the C/QPP but also includes the flat-rate Old-Age Security, and the income tested Guaranteed Income Supplement and Spouses' Allowance programs, and it does not make much sense to consider the C/QPP in isolation from the others. While the earnings-related C/QPP are entirely financed from payroll taxes, and no consideration at all appears to be given at present to general revenue financing for these Plans, the other three programs are financed entirely from general revenue. Furthermore, while in the distant future it is possible that the C/QPP may become far more important than the other three programs, at the present time the reverse is true. For example, in 1977 total benefits paid under the C/QPP amounted to $1.3 billion, while total benefits paid under the other three programs amounted to $4.8 billion.

I would like to mention that I consider the Canadian system of financing earnings-related programs with payroll taxes and welfare-type programs with general revenues to be sensible. The problem in the U.S. is the lack of a clear distinction between the two types of programs. The difficulty in Canada maintaining public awareness of the costs is primarily due to the lack of required long-term estimates of the costs of programs financed by general revenues. Requiring such estimates would make the situation clearer.

MR. BARTLETT: Are there any questions on the topic of general revenue financing?

MR. A. HAEWORTH ROBERTSON: This comment is related to the SMI program. Mr. Treuil suggested that when general revenue financing is used there is a tendency to ignore long-range cost projections, and I believe that is true. The cost of the SMI program is currently equivalent to about 0.9% of taxable payroll. That cost is projected to rise to around 2.5% early in the next century. These cost estimates have been made by actuaries in the Health Care Financing Administration but they are not published officially. I think that this rise in costs should be brought to the attention of the taxpayers, Congress, and policymakers. I see SMI as fundamentally the same as the HI program, particularly in terms of the future cost commitment. Although the SMI program is technically voluntary, about 95% of the eligible population is enrolled, and a person must specifically elect not to be enrolled. Furthermore, participants currently pay only 30% of the program cost, and that is projected to decline to 10% within 20 years. We should insist on long-range estimates of the costs of the SMI program.

MR. SWENSON: I agree that the SMI program, like the HI program, represents an income transfer from workers to persons who are no longer working. It is important that SMI be included in any evaluation of the commitment to future income transfers.

MR. MYERS: In my opinion, it is not either necessary or desirable to express the cost of the SMI program as a percentage of taxable payroll and combine it with the tax rates necessary for OASDI and HI. SMI is a different type of program, voluntary and financed in a different manner. There would be just as much reason to combine the costs of other programs, such as Unemployment Insurance and Education, with the OASDI-HI costs.

As to the very high costs shown for OASDI and HI ultimately, it should be recognized that a significant portion of this is due to HI, with its assumed greatly escalated daily hospital costs.

It should also be kept in mind that, if wages rise somewhat more rapidly than prices over the long run, the increasing relative cost of OASDI and HI can be met by the working population sharing some of the increase in productivity with the retired population. For example, if, over the long run, wages increase by 1% more annually than do prices, then if workers take only 75% of this as an increase in real wages and allow the other 25% to be used for increased social security tax rates, the rising-cost situation can be handled.

MR. C. L. TROWBRIDGE: The U.S. has a means-tested general revenue financed program called Supplemental Security Income (SSI). This program provides old-age and disability benefits to people with very low incomes. Although the SSI program is small in comparison to OASDI, the program has not been shrinking relatively at the rate originally anticipated.

I cannot feel strongly opposed to general revenue financing of Medicare for two reasons. The first is that the benefits are not earnings-related. The second is that I believe Medicare will eventually be replaced by some kind of national health insurance which will be financed by a payroll tax. Thus, preserving the HI payroll tax or introducing a new SMI payroll tax does not seem sensible in the long run.

MR. BARTLETT: The former Commissioner of Social Security, Stanford Ross, often stated publicly that he believes the expansionary period for social security has ended and that future changes would involve only minor adjustments. The current Commissioner, William Driver, has carried on that theme to some extent. The panelists will now present their views.

MR. MYERS: I will discuss here only short-range proposals to revise the benefit structure of the U.S. OASDI program. There will not be discussed long-range proposals, such as a gradual increase in the minimum age at which unreduced benefits are available from the present 65 to 68, beginning some 20 years hence and doing so gradually.

In my opinion, relatively few changes are desirable, because they will generally adversely affect accrued rights. For example, the elimination of child school-attendance benefits, payable at ages 18-21, has been proposed with respect to all children now under age 18. Although there is some question as to the necessity for this type of benefit, I believe that this would be unfair with regard to any present children now under age 18 whose educational plans were premised on the availability of these benefits.

One desirable change that could equitably be made is to hold down the amount of the automatic benefit increases when prices are rising more rapidly than wages (as has been the case recently). Later, if the relationship between

the trends of the CPI and wages changes, such holding down of the increases could be recompensed by giving increases larger than the CPI change. Such a provision could be a financial help to the OASDI Trust Funds at times like the current situation.

Wide-sweeping proposals have been made to restructure completely the OASDI system to recognize what is referred to as the changing role of women in our economic society. It is true that women now are more engaged in the paid labor market than was the case some 45 years ago when social security began. However, even then it was recognized in designing the program that this trend would likely occur.

Even though there is now completely equal treatment of men and women under OASDI, those proposing restructuring of the program assert that this is not enough. They believe that two-earner families are unfairly treated and that homemakers are denigrated, because they receive benefits as dependents and not in their own right. The latter criticism, incidentally, is not supported either by the law (because the basis of the benefits is legal status, not dependency) or by some organizations consisting primarily of homemakers!

Three alternative types of restructuring proposals have been presented. First, a double-decker system would be established, consisting of a univeral flat benefit and a proportionate earnings-related benefit (similar to the OAS and CPP/QPP plans in Canada). Second, earnings of spouses would be subsidized or shared between them (as is done to a very limited extent under the C/QPP, for certain cases of divorce). Third, homemakers would be required to pay OASDI taxes on a presumed or imputed amount of earnings.

I believe that none of these approaches is desirable or feasible in practice. In theory, I could support either the double-decker or earnings-sharings approach if the system were just now being initiated. However, the transition problems (and the resultant cost problems if some persons are not to have their benefit rights lowered) seemed insurmountable. Contributory homemaker credits would pose heavy financial burdens on some families that would be impossible to meet.

Some changes within the existing frame work of the OASDI program are desirable to recognize certain problems that particularly adversely affect some women. These include such matters as the following:

(1) Indexing the earnings records of deceased workers up to the time when the widowed spouse is first eligible for benefits.
(2) Providing child-care years in the computation of benefits, particularly the special-minimum benefit (as is currently done, to a limited extent, for determining drop-out years in the computation of DI benefits).
(3) Splitting the combined benefits equally between the two spouses when they desire separate checks, rather than a combined one. For example, if a male worker retires at age 65 with a wife the same age, and if separate checks are desired, then at present the husband receives 100% of the primary benefit, and the wife receives 50%. Under the proposal, each would receive 75%.

Suggestions are currently being made in the U.S. that employers would be required to establish pension plans meeting certain requirements for all of their employees. If the only alternative to this were a significant expansion of the OASDI program, I would favor such mandatory private pensions.

However, I believe that this is not necessarily the only choice, and I would favor instead various measures to encourage further the development of private pension measures. Such measures could include liberalization of the conditions affecting Keogh plans and Individual Retirement Accounts and simplification of ERISA requirements.

In any event, if there are to be mandatory private pensions, some measures should be taken to exclude intermittent and low-paid workers, whose economic security needs are already adequately taken care of by OASDI. If even the almost full replacement of take-home pay by OASDI is not sufficient to meet the economic needs of such persons, then public assistance is available under the SSI program.

One point which is often made is that mandatory pensions would increase savings in this country. Many of these statements are based on the work of Martin Feldstein of Harvard whose econometric model was used to conclude that existence of the social security system has reduced savings by 50%. I never accepted that conclusion because it assumed that without social security there would be nothing at all. Recently a computer error was discovered in the Feldstein model. The net result of correcting the error was that social security had no effect on savings. Mr. Feldstein admitted the existence of the error but later claimed that the inclusion of other factors would lead to the same conclusion. I believe there is a need for more private savings in this country but I don't believe social security should take all of the blame for the problem.

MR. SWENSON: Over the long term, benefit promises and their associated taxes must be reasonable and affordable. The demographics of the U.S. indicate that a reduction in promised benefits is warranted if taxes are to be reasonable and affordable.

An approach which is gaining support is to increase the age at which full benefits would be received from age 65 to an age such as 68. It is further recommended that the change be enacted as soon as possible, but it should not become effective until the turn of the century. At that time, there should be a gradual increase in the normal retirement age over a period of 10 or more years.

There are several reasons for suggesting such a change. Beginning shortly after the turn of the century, the demographic influence of the baby boom and the subsequent baby bust dictate that a reduction in promised benefits is essential to enable the then active work force to afford the income transfer. As indicated earlier, there is a long term financing deficit of approximately 1½% of taxable payroll. A gradual increase in the retirement age to 68 would eliminate approximately two-thirds of the projected deficit.

Another reason is related to the fact that life expectancy has improved and is continuing to improve. The retirement age concept should not be considered as static but should be considered to be dynamic. Individuals aged 68½ had the same life expectancy 10 years ago as individuals aged 65 when the social security program began. Very dramatic improvements have taken place during the last 10 years although they have not yet been fully evaluated and future improvements are likely. By the turn of the century, individuals well into their 70's are likely to have a life expectancy comparable to an individual age 65 when the program began.

Opponents of the recommendation point out that there has been a trend toward earlier retirement and early retirement helps reduce high unemployment rates. This argument fails to recognize demographic reality. One of the primary causes of our current high unemployment rate is the influence of the baby boom generation entering the labor force as well as the increasing percentage of females seeking employment. The latter trend is expected to plateau and the baby bust will likely foster labor shortages. In a macro-economic sense, productive older members of our society will need to be encouraged to work to produce the goods and services our country will need.

Incidentally, while the change in retirement ages would not take place until after the turn of the century, the legislation should be enacted as soon as possible. This would allow individuals and those who sponsor benefit plans the opportunity to adjust to the changed circumstances.

Another major change that would substantially alleviate future problems would be to "price index" the benefit formula prior to retirement. The benefit formula is now wage indexed prior to retirement. Since it is anticipated that wages will increase more rapidly than prices, benefits paid to future retirees will be higher than those paid to current retirees in terms of inflation adjusted dollars. Wage indexing produces replacement ratios that are essentially constant and permits benefits before retirement to increase with productivity increases.

Price indexing would produce gradually decreasing replacement ratios, but it would provide future retirees with as much purchasing power as persons currently retiring. Price indexing was advocated by the Congressional Consulting Panel headed by Bill Hsaio.

Some advocates of price indexing recommend that a portion of real wage growth should be set aside for retirement savings, either through individual saving or through private pension plans. This would provide our economy with capital formation which in turn would foster additional gains in productivity.

Another advantage of price indexing is that it produces benefits that remain relatively constant as a percentage of taxable payrolls. This is a major advantage when compared with the rapidly rising percentages generated by the wage indexed formula.

Significant benefit reductions will be very difficult to enact. However, if the implicit social contract between generations is to remain viable, the benefits currently promised to the baby boom generation will have to be modified. The changes should be enacted now so that those affected will have ample time to prepare for the changes in a rational manner.

Concerning mandatory minimum pension plans, the cornerstone recommendation of the President's Commission on Pension Policy is the conclusion that serious consideration should be given to the establishment of a minimum advance-funded tier of social security that would permit contracting out to pension plans meeting certain standards. Contracting out is an approach currently employed for the second tier of social security benefits in the United Kingdom wherein an employer does not have to participate in that tier if they provide private pension plans that are at least equivalent to the second tier benefits. The second alternative would be mandated, minimum employer sponsored private pension plans with a central portability clearing house.

This interim report recommendation was based upon several premises. The first premise is that social security does not provide benefits that allow for the maintenance of the pre-retirement standard of living. There is general agreement with this premise as social security is intended to provide a "floor of protection" although in some instances it seems to go beyond that role.

The second premise is that only one-half of the work force is covered by private pensions. Further, many of those who are not covered by private pensions will not receive adequate income upon retirement.

This leads to the third premise. That premise is that, the gap in private plan coverage will result in the expansion of the social security program.

A fourth premise is that incentives to encouarge the expansion of private pension plan coverage and individual retirement income saving will not prove successful. This premise, particularly as it relates to individual retirement income saving, was developed by reviewing U.S. experience with IRA's.

Finally, the fifth premise is that there is need for additional savings in the U.S. to provide capital formation. Advance funded pensions would provide a valuable source of capital formation so desperately needed to improve the productivity of the economy. There is general agreement with this premise. It should also be noted that advance funding will help alleviate the potential for intergenerational conflict inherent in pay-as-you-go funded programs.

As indicated, most people will not disagree about the premise involving the desirability of advance funding and the premise that social security benefits are not intended to completely fill the role of providing retirement income. However, let us examine the other premises.

The statistic that only one-half of the working population is covered by private pension plans is misleading. A large number of those not covered do not meet the necessary age and service requirements permitted by ERISA. If appropriate adjustments are made for this fact, it is discovered that approximately two-thirds of the full-time work force is covered.

Another premise is that private plan coverage will not grow significantly in the future. This premise is supported by pointing out that private plan coverage has not grown as a percentage of the work force since the late 60's.

It is important to point out several facts relative to this premise. First, social security benefits and costs grew very dramatically during this period. During the decade between the mid-60's and the mid-70's benefits expanded by almost 50% in terms of inflation adjusted dollars. Costs grew even more rapidly and this fact discouraged the development of new plans.

Second, ERISA, and its myriad of mind-boggling requirements discouraged the adoption of new plans.

Third, it must be recognized that employers adopt pension plans to attract and retain employees. Demographic influences have produced an over-supply of labor, particularly among young persons for whom the existence of a retirement plan seemed relatively unimportant. Employers have not found it necessary to sponsor pension plans in order to attract employees. As the labor supply begins to tighten, however, and as the age distribution

of the population matures, employers will be required to adopt pension plans to both attract and retain employees.

Another questionable premise is that which assumes that incentives to encourage individual saving for retirement will only prove successful for higher wage earners. While it is true that IRA experience in the U.S. supports this premise, the experience with incentives to encourage individuals to save in other industrialized countries indicates that persons at virtually all levels of income are able to save significant amounts. The experience in Canada with the registered retirement savings plan is encouraging in this respect.

There are other indications that persons in the U.S. are capable of significant saving given the proper incentives and mechanisms. For example, Prudential offers a payroll deduction thrift plan for its employees. The company matches the first 3% of the employee's contribution to the plan. While it is not surprising that approximately 90% of all eligible employees participate in the plan, it is noteworthy that more than two-thirds of the participants saved more than the company-matched 3% of contributions. Further, the range of contribution rates by income level indicates that lower wage earners are capable of significant rates of saving as the total employer and employee savings rate for those earning less than $10,000 per year was 9.7% of earnings.

The final questionable premise is that social security will be expanded unless private plan coverage is made mandatory. Many serious students of social security would debate this premise. The 1977 Social Security Amendments actually resulted in a modest reduction in benefit levels. Further, demographics dictate that further long range reductions in benefits are desirable.

In fact, if the country ultimately agrees with the President's Commission that additional resources should be mandated to provide retirement income, that decision itself is more likely to lead to the expansion of social seucrity. It should be noted that one of the two alternatives suggested in the interim report is an additional advance-funded tier of social security that would permit contracting out to pension plans meeting certain standards. In those countries that permit contracting out, notably the United Kingdom and Japan, plans sponsored by large employers are generally the only plans that contract out. Since large U.S. employers already sponsor plans, any new plans created by mandate would likely become a part of the expanded social security program. In addition, many existing plans sponsored by smaller and moderate size employers would likely be merged into the expanded social security program as they would find the bureaucratic requirements of contracting out to be very onerous.

In conclusion, the U.S. already has a mandatory pension plan, namely social security. That program serves the essential function of providing a "floor of protection" to replace wages lost because of age, death or disability. Beyond the "floor of protection", private pension plans and individual saving for retirement should not be mandated but should be encouraged through properly designed incentives such as those existing in Canada. Specifically, everyone should be eligible to participate in an IRA and employee contributions to qualified pension plans should be tax deductible. These additional incentives should be given the opportunity to prove whether they are successful and individuals should be given the opportunity and freedom to choose the form and distribution of their compensation.

MR. TREUIL: The status of pensions in Canada has been subjected to a large number of studies in recent years. These studies might be classified into two groups: a) those carried out by organizations closely associated with government or labor, and b) those carried out by parties closely associated with business or the pension industry.

Those studies conducted by organizations closely associated with government or labor have almost invariably focused substantial attention on perceived inadequacies of the private pension system. Those inadequacies most frequently cited include 1) the low percentage of workers (generally 40 to 60% is mentioned) covered by employer-sponsored plans and the heavy concentration of such plans in the public as opposed to private sectors, 2) inadequate vesting provisions, 3) lack of portability including failure to index deferred pensions, 4) inadequate and nonautomatic indexing of pensions in pay, and 5) inadequate provisions for spouses and survivors of employees. Practically all of these government or labor associated studies suggest a substantially expanded C/QPP, with serious encroachment on the actual or potential field covered by private pensions, as a possible solution to these problems. The exact proposals vary from study to study, but a substantial increase in the retirement benefit percentage from 25% to, perhaps 40-50%, is a common ingredient. Some of these studies foresee a substantially expanded C/QPP as the only solution or at least as a necessary ingredient of any solution. Some others, however, view a major reform of the private pension system, involving perhaps mandatory minimum pension legislation, as a possible alternate solution.

As to the second group of studies carried out by parties closely associated with business or the pension industry, these tend to view with alarm any substantial expansion of the Canada and Quebec Pension Plans. Concerns over more or less short-run adverse effects on business, encroachment on private enterprise, and the financial burden imposed on future generations that would be entailed by substantial expansion of these plans, are frequently expressed. While recognizing that there are a number of deficiencies in the private pension system, and while recommending various measures to improve this sytem, as a group, these business-pension industry associated studies when compared to the government-labor group of studies, tend to a) advocate less comprehensive reform measures, b) place more emphasis on voluntary reform and less on legislative reform, c) recommend government measures that would involve more assistance to, but less interference with, the private system, and d) attack more strongly any precedent setting measures that may be difficult for the private system to emulate, such as the liberal indexing provisions of the Federal and a number of provincial public service plans.

What all this portends is difficult to say, but sooner or later some significant revisions in the pension system seem to be inevitable. The Federal government plans to sponsor a national pension conference beginning next spring, after the release of the report of the Ontario Royal Commission on the Status of Pensions, with all interested parties invited to participate. This conference may provide the forum to determine whether some sort of consensus can emerge. It may be of some interest to note that Miss Monique Begin, the Federal Minister primarily responsible for Canada Pension Plan policy and for organizing the national pension conference, has indicated that she would personally prefer a solution involving a major revision of the private pension system than one involving a significant expansion of the Canada Pension Plan, perhaps along the lines suggested as option 3 in

the report of the Federal Task Force on Retirement Income Policy, which would involve legislating mandatory and universal minimum pension plan requirements.

MR. BARTLETT: The floor is now open for general comments or questions.

MR. ERNEST J. MOORHEAD: I would like to ask the panel for their views on the appropriateness of the CPI indexing procedure. I would like to divide the subject into two parts. The first part is the question of whether the CPI overstates the general rise in prices, as Mr. Geoffrey Calvert discussed in his article in The Actuary. The second part concerns the relative value of the uniform CPI increase to persons at different income levels. I think it might be argued that the value of the increase is greater for those with lower incomes, and perhaps we should consider an indexing system in which the CPI increase would apply in full to only the first $250 of benefits and half would apply beyond that amount.

Another point concerns the taxability of benefits. I think we should consider taxing benefits and funneling the proceeds of the tax back into the trust funds.

MR. MYERS: Recently, there has been considerable criticism of the use of the CPI in adjusting social security benefits. Its validity is questioned for several reasons, such as changes in the quality of the products in the market basket and the approach in representing housing costs (namely, using the purchased-house prices and mortgage interest rates).

Quite naturally, any index which is used should be a proper one. I am not convinced that any changes in the quality of the contents of the market basket are not offset by factors moving in the other direction. As to housing costs, I believe that these are improperly treated in the CPI, because they do not take into account the capital gains involved in selling one house and purchasing another one. Thus, instead of considering the entire price of a new home which is purchased in trade of an old home, there should be taken into account only the change in the valuation of the two residences. Furthermore, a shift in the basis of the CPI as it treats housing costs would have to be very carefully done so that the overstatement which has occurred in the last two years would be adequately compensated for.

There is no question, in theory, that social security benefits should be subject to income tax. However, after 40 years of nontaxability, it hardly seems politically expedient, or even fair treatment, to change the rules of the game by making benefits taxable.

The only feasible and equitable approach, as I see it, would be to phase in the income taxability in a very gradual manner. For example, it could be provided that for persons attaining age 62 in 1983, 1½% of their benefits would be subject to income tax. This percentage could then be increased by 1½% per year for subsequent annual cohorts of persons attaining age 62, until eventually a maximum of 50% would be reached.

MR. SWENSON: I believe that the CPI overstates inflation for many of the reasons stated by Mr. Calvert in his article. The treatment of housing as a consumption item leads to many anomalies, including the reporting of no cost-of-living increase in a recent month because of a decline in housing costs, even though the prices of most goods and services increased. I personally feel that the personal consumption expenditures deflator of the GNP is a much better measure of inflation than the CPI.

Another question relates to indexation generally. To the extent that certain segments of our society have their wages or benefits such as social security indexed, they are protected from the adverse consequences of events like OPEC price increases. A question of fairness arises because those persons whose incomes are not indexed are forced to bear a disproportionate share of the burden.

With respect to taxation of benefits, I would suggest taxing benefits if we were beginning a program today, but taxing social security benefits has proven to be very unpopular.

MR. TREUIL: I believe that finding some sort of indexing procedure for private pensions is more important than refining the procedure for social security. The question of taxability of benefits does not apply in Canada--benefits are taxable.

MR. ROBERT M. MAY: What can be done to eliminate windfall benefits to persons with noncovered employment?

MR. MYERS: I believe that there are excellent prospects for enacting provisions which would prevent windfall benefits (due to the weighted nature of the benefit formula) for Federal, state, and local government employees who are not covered under OASDI. Such provision would apply only to future earnings and would not destroy accrued rights for services in the past (even though the windfalls resulting therefrom might not be justified).

A proposal somewhat similar to the simplified alternative approach described in my paper in the Transactions for 1979 was recommended by the Advisory Council on Social Security last December. Also, the National Commission on Social Security will make such a recommendation in its forthcoming report in January 1981.

What leads me to believe that such a provision will be enacted is that it has no opposition from the various groups of government employees who oppose universal coverage. In fact, they say "Leave our retirement system alone and modify yours in any way that you wish as long as some social security benefits are payable to former government employees who have social security coverage."

MR. MILTON P. GLANZ: I have some comments on the general question of benefit reductions and tax increases. I think there is merit in advancing the normal retirement age in some rational way connected with life expectation. I think there is much less to be said for advancing the retirement age merely because of a demographic bulge based on births. Also, I think productivity increases are not merely a thing of the past. So one way in which we have a choice is that some of our future productivity increases can be used to increase the social security tax rate. We want to keep the structure of the system rational and, if possible, unchanging. The ideal system would choose the invariant parameters, i.e. the ones that are insensitive to demographic and economic cycles. I believe that price indexing of the benefit formula is a real structural change; it changes the share that the aged have in comparison to the working population. I personally believe that is very undesirable.

MR. FRANKLIN B. DANA: I have a question about the position of a company which has a profit-sharing plan but not a pension plan. As I understand it, such a company would have to either replace or add a regular pension plan to their existing system. Is that correct?

MR. SWENSON: The approach which has been suggested by the President's Commission is one which would permit either a defined contribution plan, which is a profit sharing plan, or a defined benefit plan, meeting certain requirements. Basically, they have proposed that the minimum plan would be one which would have a contribution requirement phased in over a period of three years, wherein the contribution rate would be one percent the first year, two percent the second, and three percent the third. They have suggested that regulations be proposed which would determine what an equivalent defined benefit plan to that equivalent level of contribution would be.

MS. MARSHA M. BERA: I have three questions. The first is addressed to Mr. Myers. Can he reconcile his earlier comment about the adequacy of social security benefits at low income levels with the finding in the President's Commission interim report that people with only social security benefits seem to have inadequate incomes? Also, is there any indication whether people at the lower social security benefit levels are those people with no private pension plan benefits?

The second question is general. Do the panel members see any difficulties applying mandatory minimum pension requirements to negotiated or multi-employer plans? And, finally is there any attempt to develop a retired-life CPI?

MR. MYERS: It seems to me that mandatory minimum pensions are not needed at all for the lowest paid workers--say, those at the minimum legal wage (or lower on an annual basis if they are employed only intermittently). Such individuals have virtually full replacement (or more) of their earnings by the social security benefits. If the latter are still not enough for subsistence, then the problem should be handled by Public Assistance. Moreover, it is this group of low-paid transitory workers for whom mandatory minimum pensions would be most difficult to administer.

Many persons and groups have advocated over the years that there should be developed a special CPI for retired persons or for social security beneficiaries in the aggregate. Often such suggestions have been made in the belief that, because the aged spend a higher proportion of their incomes for certain items, there would be larger adjustments under a special CPI. What is ignored is that it is not the height of the expenses, but rather the relative changes over time.

Such studies as have been made on this subject indicate that there would be relatively little change in the movement of the CPI for an index for aged persons as against the general one. One such study is the article by Milton Glanz in the March 1980 issue of The Actuary.

MR. SWENSON: I believe that if mandatory minimum private pension plans are required, a multi-employer arrangement may be suitable. However, many of the people that are not currently covered by private pension plans are those who are not represented by unions, and unions are involved in most multi-employer plans. So, unless a multi-employer plan could be devised that included nonunion workers, I am not sure that the arrangement would be a viable solution to the problems of noncovered workers. To the extent that mandatory minimum pension plans would take away one potential subject for bargaining, whether or not the existence of a mandatory plan requirement would be favorable to labor is somewhat difficult to determine.

MR. TREUIL: With respect to the third question, a large number of retirees probably spend nearly all of their incomes on current expenditures. As a result, if you try to study the pattern of their expenditures, they will reflect the pattern of their incomes. For example, the expenditures of those on fixed incomes will tend to remain fixed, and one could conclude that a zero CPI adjustment is appropriate for those people. I think that developing satisfactory statistical information to determine the proper CPI would be very difficult.