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REORIENTATION OF SOCIAL SECURITY TO LATER RETIREMENT

Moderator: GORDON R. TRAPNELL. Panelists: RALPH J. BRASKETT, ROBERT J. MYERS, HOWARD YOUNG

1. Proposals to reorient Social Security to encourage later retirement

2. The impact of later retirement on employers, employees, pension programs and insurers

3. The desirability, practicality and equity of requiring later retirement

4. The problems of funding disability-related early retirement

5. Alternative approaches to bringing the long-range benefits and revenues of Social Security into equilibrium

MR. GORDON R. TRAPNELL: We are very fortunate in having such a distinguished panel for our session this afternoon. Mr. Robert J. Myers, currently the Deputy Commissioner for Programs of the Social Security Administration and formerly Chief Actuary of Social Security from 1947 to 1970, will present the Reagan Administration's views on later retirement and will discuss the relative merits of later retirement versus other means of reducing long-range Social Security costs. Mr. Ralph J. Braskett is Chief Actuary for the consulting firm of Hirschfeld, Stern, Moyer & Ross, Inc., and will address the effects of later retirement on private employee benefit plans. Mr. Howard Young is a Special Consultant to the President of the United Auto Workers, and will comment on the potential economic and social consequences of delayed retirement.

MR. ROBERT J. MYERS: The Social Security program (Old-Age, Survivors, and Disability Insurance or OASDI) now has serious financing problems, both short-range and long-range. This session is devoted to the matter of reorienting OASDI to later retirement, which could be of significant aid in alleviating the long-range problem. However, from a practical standpoint, any such action in the direction of increasing the present "normal" retirement age of 65 would be of little (or even no) help insofar as the short-range problem is concerned.

There are two aspects of later retirement as it relates to OASDI. First, the normal retirement age could be gradually increased from 65 to 68 in some future year (far enough into the future to provide adequate advance notice), which would significantly reduce the long-range cost of the program. Second, if the normal retirement age is left unchanged, and if individuals did not retire as early as currently is the case, some reduction in the cost of the program would occur -- especially if the earnings (or retirement) test is retained and, of course, if the delayed-retirement increment (an additional 3 percent of the Primary Insurance Amount for each year of delay) is not raised to an actuarially-equivalent level.

Besides holding down the cost of the OASDI program, later retirement is desirable for several other reasons. It is only reasonable that, considering the increased longevity which has occurred over the years and is likely to continue in the future, people should work to older ages. It is possible that improved health and ability to work will not necessarily accompany increased longevity. If such is the case, those who advocate a higher normal retirement age beginning at some long-deferred future date believe that the scheduled increase could readily be postponed, or even eliminated.

Correspondingly, widespread later-retirement experience will be beneficial to the populace, because greater national productivity will result. This will be especially important in the early 21st century, when there will be relatively few young workers as a result of the low fertility in recent years.

Then too, it is likely that continued employment at the older ages will be beneficial to the individuals involved, not only because of the additional income, but also because of possible improved mental and physical well-being.

The Reagan Administration believes that later retirement should be encouraged in several ways, but that this should not be done by increasing the traditional normal retirement age of 65 under OASDI. Instead, early retirement at ages 62-64 (or before) should be made less attractive by several other changes, including:

(1) Increasing the computation point for calculating average earnings for benefit purposes from 62 to 65 (on a phased-in basis), thus requiring more computation years and making it more attractive to work longer so as to have higher average earnings.

(2) Eliminating benefits for the children of retired workers at ages 62-64, so that such workers are not encouraged to retire early because of the temporarily larger benefits then available.

(3) Increasing the reductions applicable to the benefits of those who retire at ages 62-64 from the present 5/9 percent per month to 1 1/4 percent per month, thus reducing the benefit at age 62 from 80 percent of PIA to 55 percent of PIA.

At the same time, employment beyond age 65 should be encouraged by eliminating the earnings test for workers aged 65 and over. Some of the added cost to the OASDI system of doing this will be offset by more OASDI tax receipts and, as to the general budget, by increased personal income tax receipts. Also, the nation will gain by the increased production generated by the additional older workers.

The first recognition of the possible need to encourage later retirement under OASDI by any Federal group was by the 1975 Advisory Council on Social Security. It did not make a specific proposal to increase the normal retirement age, but, rather, it recommended that "serious consideration be given to gradually extending the retirement age, starting in 2005". As an example, it said that the age might be increased by 1 month every 6 months until age 68 was reached in 2023.

In 1977, in connection with the significant OASDI legislation developed then, Congressman Conable (the ranking minority member of the House Ways and Means Committee) and other Congressmen proposed the Republican Alternative Bill, which included a proposal to increase the normal retirement age to 68. This would be done gradually over a 12-year period, beginning in 1991 (later revised to 2001). Although this proposal had some general approval, it was also strongly criticized, and some of its original supporters ceased to support it.

The 1979 Advisory Council on Social Security made a definite recommendation (although by a vote of 7 to 6) that "serious consideration be given to enactment of an increase in the normal retirement age", to be effective in about 2000. It gave as an example that the normal retirement age could be increased to 68, accomplished by an 18-year phase-in period, beginning in 2000. By now, more and more public support was building up for such a change (as evidenced by newspaper editorials).

The National Commission on Social Security, in early 1981, recommended (by a vote of 6 to 3) to increase the normal retirement age to 68, phased in over a 12-year period beginning in 2001. A similar recommendation was made by the President's Commission on Pension Policy a few months later, except that the 12-year phase-in to age 68 would begin in 1990 or 1991. A survey made by the NCSS showed that, of those expressing an opinion, 41 percent favored increasing the normal retirement age under OASDI after 20 years, rather than increasing Social Security taxes.

Also in 1981, two prominent Democratic members of Congress introduced bills which would raise the normal retirement age under OASDI to 68. Senator Chiles, formerly Chairman of the Special Committee on Aging, proposed that this be done over a 12-year period, beginning in 2000 (similar to the proposal of the National Commission on Social Security). Congressman Pickle, Chairman of the Subcommittee on Social Security of the Ways and Means Committee, called for a 10-year phase-in, beginning in 1990. By this time, many business groups and other organizations had come out in favor of some such action, but labor organizations and others continued to oppose it.

A few proposals have been made for a normal retirement age higher than 68 -- for example, some have proposed as high as 70.

Within any proposal to raise the normal retirement age, there must be a decision as to what should be done about the early-retirement age of 62. Most of the proposals would move such age up in tandem with the normal retirement age. Others would leave the early-retirement age unchanged at 62, but would modify the reduction factor so that early-retirement benefits would continue to be on an approximate actuarial basis, relative to the new normal retirement age. For example, under the Pickle Bill, the present factor of 80 percent at age 62 would eventually become 64 percent (i.e., 80 percent for the present 3 years below the normal retirement age times 80 percent for another 3 such years).

The argument in favor of raising the early-retirement age in tandem with the normal age is that, with improving longevity, age 65 will eventually

be relatively the same as age 62 is now. On the other hand, retaining age 62 is advocated on the bases that this is a "promised" feature and that some workers will continue to be "burned out" that early.

Another decision which must be made if the normal retirement age is increased concerns possible modifications of the minimum qualifying age for Medicare benefit protection. Here again, the choice is generally considered to be between maintaining it at 65 or else raising it in tandem with the normal retirement age. A similar choice must be made as to whether aged widow's benefits should continue to be payable as early as age 65 on an unreduced basis or age 60 on a reduced basis. Similarly, a decision would be needed with regard to the disabled widow's benefits now available (on a reduced basis) at ages 50-59.

The most recent reading of public opinion as to increasing gradually the retirement age under OASDI is contained in a CBS-New York Times poll. This showed that such action was favored by a 5-to-4 margin. Thus, over the years, an increasing proportion of persons have moved in the direction of supporting such a change.

In addition to the favorable financial effect of larger income (and the possible well-being effect) on employees of later retirement, the resulting lower Social Security taxes would be beneficial to them, and also to employers.

If later retirement occurs solely because individuals work longer, private-pension costs will be lower. On the other hand, if this occurs because the normal retirement age under OASDI is raised, the effect on private-pension costs is not clear. Thus, if private pension plans "fill in the gap" by increasing their payments for early retirements, they will have significantly higher costs. However, if they moved their retirement-age provisions in tandem, their costs will be lowered.

To achieve the result of later retirement, employers may have increased managerial responsibilities. Instead of having the "luxury" and administrative ease of encouraging retirement at age 65 (or earlier), management will have to be more selective about encouraging some persons, who have satisfactory work abilities, to work longer. In many cases, changes to less demanding positions and/or retaining may be required.

Some critics of raising the normal retirement age under OASDI argue that this is undesirable because it is really a reduction in benefits in that the person retiring at age 65 will have a reduction in the benefit amount if the normal retirement age becomes 68. On the other hand, this is countered by the argument that such action is merely the maintenance of the "real" value or level of the retirement age -- just as is done by the provision for automatic adjustment of the benefit level for increases in the Consumer Price Index. Also, along the same lines, it is pointed out that with increasing longevity, for a normal retirement age of 68, the total lifetime benefits for an individual retiring at the early-retirement age of 65 then will be at least as much as they are now for retirement at the normal retirement age of 65.

The Reagan Administration is deeply concerned about restoring the long-range financial soundness of the OASDI system without increasing the

tax burden. Instead of taking the option of increasing the normal retirement age to accomplish a large part of this goal, the choice was made to reduce, on a phased-in basis, the general level of the benefits -- by an average of about 10 percent.

This reduction in the benefit level would be accomplished by dampening the annual increases in the dollar amounts of the "bend points" in the benefit formula. (In the formula for those attaining age 62 in 1981 -- 90 percent of the first $211 of Average Indexed Monthly Earnings (AIME), plus 32 percent of the next $1,063 of AIME, plus 15 percent of AIME in excess of $1,274 -- the bend points are $211 and $1,274.) The dampening would be accomplished by increasing the bend points for the next 6 years by only half of the applicable nationwide average wage increase, instead of by the full increase.

Other approaches have been suggested by various parties. These include financing part of the cost of the OASDI system from general revenues, either directly or else indirectly by financing the Hospital Insurance program partially from general revenues and transferring some of its payroll taxes to OASDI. Such an approach is, of course, a delusion, because no general revenues are available, and any that would be needed would have to be raised from other taxes or by increasing the Federal budget deficit (which would increase inflation).

Another suggested approach that would maintain the normal retirement age at 65 and not require corresponding tax increases would be to reduce the general benefit level by price indexing of the earnings record and/or the bend points in the benefit formula. This method is uncertain and unstable, because it depends on the interrelationship of future wage and price trends. It could result in considerable reduction in cost if, over the long run, wage increases significantly exceed price increases; in fact, it might result in excessive reductions in the benefit levels. Or, if wages and prices change at about the same rate, it would have little cost (or benefit) effect. Yet again, if prices increase more than wages -- as they have done in the last few years -- the result would be catastrophic, because the cost of the OASDI program would be significantly increased.

In conclusion, there are a number of ways of encouraging later retirement for persons covered by the OASDI program. Certainly, some action along these lines is necessary over the long run, and it should be done in the near future so as to give adequate advance notice to the persons likely to be affected.

MR. RALPH J. BRASKETT: Assuming a general increase in the retirement age would occur at some future point, an important question concerns the impact on private employee benefit plans. Before discussing this issue, however, let's consider some problems of coordination between public and private plans. First of all is the coordination of the OASDI and Medicare segments of the Social Security program. For example if the retirement age is increased one month per year from 1985 to 2010 or three months per year from 1990 to 2002, the Medicare eligibility age should be raised in tandem. The ages for payment of benefits for people who are receiving benefits for disability and as a result of the death of a primary wage earner could be extended to the new retirement age as it is phased in. Some questions that

I have not thought through fully are: Is the current retirement age an "earned right" for existing disableds? That is, are they "vested" at 65 or not? Also, should the eligibility age for widows' benefits be increased?

Second, coordination with ERISA could cause critical problems for pension actuaries. ERISA should be amended to have the minimum normal statutory retirement age, which is 65 with ten years of service or plan participation, move up in tandem with OASDI. Otherwise much higher pension plan costs will occur under private plans, and there will be pressure from both the employers and employees to return the OASDI normal retirement age to 65. Some potential problems under ERISA: (1) Are existing vested terminated participants and vested disabled participants vested in the benefit age 65 or not? Should they receive the actuarial equivalent if the normal retirement age is moved up? Should the plan sponsor receive an actuarial gain? Think about it for a moment -- about the fairness between those vested terminations whose benefits were held versus those who received a lump sum at termination. (2) Actuarial equivalence factors based on age 65, which the IRS currently believes are part of the accrued benefit, would have trouble meeting the requirements of the IRS anti-cut-back rules. As the law currently stands, plans would have to grandfather all accrued benefits as of the date of change. The data problems of the private plan are an administrative nightmare. If a plan pays lump sums, based on an age-65 commencement date, would these lump sums be grandfathered at the date of amendment, or moved up accordingly -- another real problem. (3) Last but not least, I hope ERISA would be amended so the normal retirement age would be expressed as a function of the year of birth. Then those of us in the private plan area could use just one plan amendment with the transitional retirement ages built right into the plan.

A third area of coordination involves the IRS qualification and integration rules -- major problems. For example, all your early retirement reductions for integrated plans under Revenue Ruling 71-446 are now based on age 65. Certain of the spouse benefit rules in 71-446 would also need adjustment.

A fourth and final area of coordination would involve such government laws and programs as the Age Discrimination in Employment Act and the Supplemental Security Income program.

Making the drastic assumption that all these wonderful coordinations would occur, consider the impact on private employee benefit plan costs. Group health and life plan costs will clearly increase if the employer adopts a higher normal retirement age. Medical claims will be shifted from Medicare to private plans. Death claims will be paid by private plans to people who die in those intervening years which would otherwise not be paid. Perhaps we will see graded multiples of salary in group life insurance to absorb some of this additional cost, at least from ages 65-68. Group long-term disability (LTD) costs will rise as disabled life annuity factors increase. How fast will depend on the answers to the questions raised above and on whether a more liberal definition of disability is implemented under Social Security from age 60 or 62 on. The rise in LTD costs will vary substantially by type of employer and is also related to the issue of "disability retirement" discussed below.

Defined benefit pension plan costs should decrease slightly if the employer adopts the increasing OASDI normal retirement age. How much of a decrease

will depend on the actuarial equivalent used for other retirement benefits and on how many people retire at age 65 or earlier. Pension costs will increase if the employer maintains age 65 as the normal retirement age under his plan, especially if he has an offset plan and uses the age 65 Social Security benefit award as the offset. Also, in this area of increased pension costs, legislation may require benefit accruals up to the OASDI floating retirement age if the plan's normal retirement age remains at 65. Pressure for subsidized Social Security supplements would increase costs of a private plan as would pressure for subsidized early retirement benefits. The early retirement age and ERISA-mandated spouse benefit will become universal because employers will be loathe to eliminate the right to retire at age 65.

Last, but certainly not least, disability-related early retirement will become more important with an age-68 retirement age. More pressure for this type of benefit will come from many groups, for example, groups in blue collar occupations where insurers do not like to write group LTD except maybe on a cost-plus basis.

Social implications also need to be considered. Actuarial Note 105 of the Social Security Office of the Actuary (which I would recommend to everyone here who is interested in the topic) indicates an improvement in longevity at age 65 of approximately 6 years relative to 1940 and 3.75 years relative to 1950. The Social Security actuaries project a further increase of 3 years in post-65 life expectancy by the year 2000. Question: If it was right to pay my grandfather for 9 years -- 9 years of benefits, that is, in 1950 dollars -- is it right to pay me for almost 16 years at 2006 dollar rates?

From the viewpoint of practicality and demographics, consider the lack of workers in the 1990's as the 1970's "baby bust" grows up, and later as the 1950's "baby boom" retires. Program costs for OASDI under the intermediate B assumptions in the 1981 Social Security Trustees Report (which, in my opinion, are in fact optimistic in the aggregate as we say in the pension business), are over 14 percent of covered payroll. Under assumptions reasonable in the aggregate for a social insurance program in a spoiled western democracy such as our own, the program cost is more like 18 1/2 percent of covered payroll for OASDI alone based on our age-65 normal retirement age. Therefore, I think given the expected economic and demographic situation, the practicality of later retirement is well established.

Another area of social implication is disability. The move to later normal retirement probably should encompass a looser definition of disability for blue collar workers, hopefully offset by an increase in the early retirement age which is now 62 for Social Security purposes and earlier in some private plans.

Very liberal early retirement schemes such as age 55 with 30 years of service, or "thirty years and out", are a license to double-dip by the people covered under those plans. By that I mean workers could retire from one job, collect a pension, and get another job with another salary. In the case of Federal civil servants and some State civil servants, it is possible to triple-dip under ERISA. They could collect an indexed pension from their government employer, a salary from another job, and accrue benefits on that other job, both as to a private pension and Social Security. A move by Social Security to increase the early retirement age in tandem with the increase in the normal retirement age would be helpful in countering this practice and in reducing program funding requirements over the next 10 years.

The impact of later retirement on employees, employers, and insurers should also be considered. Employees would experience a slight reduction or stabilization of the number of years as a beneficiary. This would occur under the phased-in schemes, especially the 1 month per year version. It is also true under the 3 months per year version starting in 1990, or in the year 2000. Other results would include a gradual increase in the number of years as a contributing worker, especially if unemployment is kept stable or lowered; less double-dipping and triple-dipping, especially if the employers of both my fellow panelists would cooperate; less mobility as the normal retirement age increases, especially in declining industries; lower payroll and lower taxes (which are probably not regressive) than if the normal retirement age remains at age 65; and perhaps higher contributions by employees to group plans. Traditionally, contributory group plans have not been graded by age, although we do see some of this now in group life.

Implications for employers include modest increases in fringe benefit plan costs (and modesty is in the eye of the beholder, of course) if the normal retirement age is increased, or moderate to sharp increases in fringe benefit costs if the normal retirement age remains at age 65. This would be especially true if the employer pays the group health costs of his retirees. Another implication is that work-force planning by the employer would be affected by the reduction in employee mobility. Employers will also be forced to deal with any nonproductive older workers, for example, to reenergize, rehabilitate, fire, unload them on the LTD plan (which is usually heavily employee-contributory) or the disability-related early retirement plan, or to unload them on the pension plans through early retirement, which has been the classic method and which will become much more expensive than ever. There will be less worker scarcity after 1990 as the "baby bust" hits the job market because we will have people working a little longer.

Insurance companies have a lot of problems with the economy today, but just on this issue, the companies could develop adequate conversion policies (convertible at age 65, which would then be the early retirement age under Social Security, assuming that Medicare coordinates with OASDI) or alternatively, give all this business to Blue Cross/Blue Shield which may be better equipped to handle it. Moving to a sharper definition of disability after age 60, or having two different definitions with different rate structures, could help offset higher costs due to the three additional years of benefit payments which must be built into the disabled life annuity factors. More careful determinations and experience analyses may be required. Now it is reasonably easy to approve a disability claim and hope that the pension plan will cut in at age 62, which generates an offset and a corresponding savings to the insurer. There has been a tendency on the part of some insurers to let people slide through at age 60, based on experience analyses I have prepared.

My personal opinion would be that a later normal retirement age should generate a lower payroll tax. I would also prefer: A higher tax for OASDI from now until 1990 to help with the near-bankruptcy problems we face; financing the Medicare program through ear-marked taxes such as an energy tax; a broad income tax on both individuals and corporations; or the old classic of general revenues (which is also known as increasing the deficit). I further believe we should have a later early retirement age, offset by a more liberal disability definition after age 60, especially for blue-collar workers.

I do not believe the normal retirement age should be left at age 65 indefinitely, as the Reagan Administration proposes with the elimination of the earnings test; such a change would generate tax-free benefits which are not insignificant for people who remain employed after age 65. This proposal is a very bad form of double-dipping and would prevent upward movement of the labor force through promotions thereby closing off entry-level jobs for many people, especially during the next 8 to 9 years when such positions will be in the shortest supply.

MR. HOWARD YOUNG: I bring a somewhat different point of view. My comments can be summarized fairly simply: I think that when this discussion is immortalized in The Record, the title should end with a big question mark.

First of all, moving the retirement age back is not a painless option. Its advocates have described it as if it will only have good effects.

From the point of view of the individual, it clearly produces some drawbacks. There is a clear distinction between saying, "People should have the opportunity to work longer if they wish", and saying that "They have the non-opportunity to retire at age 65, or an earlier age, if they wish". Most people in this country work under conditions in which they really want to retire from their particular jobs. That is true even if they want to be active, and want to continue to earn some income in other areas. Most people who work in factories, or even people who work in offices (which are becoming more like factories through the imposition of computerization and other work control techniques), really are not interested in staying in the same job for an extra three years. And I think that -- in spite of the polls -- that was clear in the reaction to the proposals by the Administration to change the early retirement benefit, the age 62 benefit, starting next year. Delayed availability of adequate benefits certainly imposes a problem on the individuals.

Now, let's talk about society as a whole. Increasing the retirement age would have an impact on employment opportunities. There is certainly no indication that, in the near term, the economy would expand fast enough to absorb all of those additional people who would be looking for work. The younger workers would pay for the people not retiring, via unemployment and through less opportunity to move up the job ladder. The historic trend has been toward less work during a lifetime, not more: through later entry into the workforce, earlier departure from the workforce, and less time at work during the years when one is fully in the workforce, in spite of the fact that our output has increased enormously for the country as a whole. With respect to the question of whether there will be labor shortages, it seems to me that the opportunities for technological breakthroughs, especially related to computerization over the next 20 years, make it more likely that we will have labor surpluses rather than labor shortages. The projected labor force by the year 2050 is 45 percent higher than today, or if people continued in employment to age 68, 52 percent higher. That is to be compared with a projected GNP roughly 7 times higher than it is today, and most of that increase will come from increased productivity, not from additional workers remaining in the workforce. The estimates that I have seen (recognizing that econometric models are only useful to the extent that you want to believe them) are that the additional output due to the people remaining in the labor force would be comparable to the number of persons employed, rather than to a change in the order of magnitude. In

other words, if 7 percent more people stayed in the workforce, we would be talking about perhaps 7 percent additional GNP with total GNP maybe 7 1/2 times what it is today, instead of 7 times. Output is not going to be bound by the size of the workforce; it is going to be bound by the rate of technological improvement.

As a matter of fact, there is some reason to believe that the gain in output would be less than proportional to the number of people who stay in the workforce. There is a distinction between increased production and increased productivity. If a less than proportionate gain were the case, there would be a hidden payroll tax on everyone who remains at work. As a single indication of this, there was a recent testimony by Anthony Pollechio (Acting Deputy Assistant Secretary for Planning and Evaluation in the Department of Health and Human Services) before the Joint Economic Committee on September 23 of this year: he was analyzing the implications of what would happen if people deferred retirement much along the lines of what has been the goal of the Administration's proposal. He estimated that if three million workers remained at work (deferred their retirement) then wage rates would be cut throughout the economy -- not just for those people, but through the economy -- by 1 percent, and that would be roughly 60 percent of the savings that would occur from not paying them Social Security benefits. The point I want to make is, while there clearly are net OASDI savings if one defers retirement, the savings are not as large as simply looking at the decreased payout in Social Security benefits, because all who are working would very likely receive lower wages than they otherwise would. That is really equivalent to paying a hidden payroll tax.

What would happen to private savings if the retirement age were raised? First of all, the concept that the Social Security tax is a substitute for private savings (a theory raised by Martin Feldstein prominently some years ago) has not stood up to closer examination. Certainly we cannot assume if the effective retirement age is raised under Social Security (which will represent pressure to get people to stay in the workforce longer) that people will make up for that by private savings in order to retire at age 65, or even through employer plans. However, if age 68 becomes the "normal" target, and one attempts to achieve the same level of benefit at age 68 (rather than 65) through private plans, then there will be less savings in the private plans than there would be if the retirement age stayed at age 65. Private pension plans have been a major source of private savings in the economy. So the result of raising the retirement age could have an adverse effect on private savings throughout the economy, and that could happen fairly rapidly even though the retirement age is being raised for the future.

So, point one is, a higher retirement age is not a painless option, either for the individual involved or society as a whole.

The second question is, is retirement at age 65 -- looking out over the next 75 years -- an affordable option for our society?

Obviously one has to look at a range of assumptions, because none of us has a good crystal ball for the next 75 years. But I have no reason to feel more pessimistic than optimistic. I think that we are overly influenced by the shortfalls in the economy during the last ten years.

We are almost in the same position that people would have been in if, at the end of the 1930's, they said that for the next 50 or 75 years the economy was going to perform much as it did in the 1930's. I think that it is more realistic to look at the intermediate set of assumptions that the Social Security Board of Trustees has used.

What about the idea of being conservative? We are all trained to introduce actuarial conservatism into our calculations and use assumptions that are biased towards "playing it safe". But for whom should we play it safe?

That is a fairly easy question if our responsibility is towards a financial institution, such as an insurance company. Although, even there, actuarial conservatism has different meanings if we are talking about, for example, the mortality table for life insurance or the mortality table for annuity values. But when you talk about the Social Security system -- where we have to look at our responsibilities to those who are collecting benefits, or who will be in the near future, as well as to those who are financing the system -- it is equally objectionable to unnecessarily have a benefit shortfall as it would be to have too much benefits. In other words, it is equally unconservative to overestimate the cost of the system (from the point of view of the beneficiaries) as it is to underestimate the cost of the system (from the point of view of those financing it). We should not be indifferent about the direction of our biases, but should try to find the best long-term estimate that we are willing to believe.

Without now judging the form of financing the system, perhaps the best measure of affordability is benefits as a percentage of the GNP. In the 1981 OASDI Trustees Report there is just such a comparison. On the basis of the intermediate assumptions, OASDI currently runs about 5 percent of GNP; it would stay in the 4-5 percent range until the year 2015, and then would move into the 5-6 percent range for the remainder of the 75-year period (that is, out to the year 2055). Compare that with the over age 65 group which, currently 11 percent of the population, would be moving up by then to 20 percent of the population. So we are talking about devoting, through this system, 6 percent of GNP for roughly 20 percent of the population. Also, I remind you, that Social Security payments are not a way in which the government utilizes real material or labor resources, but are a way of transferring spending power from one part of the economy to another. Resources are not "used up" in the process. It is different than if we were saying "Take 6 percent of the GNP and use those resources for some activity."

Similarly, we have all heard or read much in the press about the dependency burden, the idea that there will be fewer workers per older person. The proportion of those over age 65 is going up, but the proportion of those under age 20 is coming down. While I recognize that there are different costs for taking care of people over 65 versus taking care of people under 20, and there are different institutional and attitudinal approaches to how that should be done, the fact is that the total dependency rate (counting those people who are below the age at which they are in the workforce, and those people who are above the age that they are in the workforce) was over 0.9 in the 1960's -- that is for every worker there was more than 9/10ths of a person either too young to be working or too old to be working. It is now roughly 0.75, will decrease until roughly the year 2020, and then rise back up to about 0.85 for the subsequent 35 years. That is certainly not out of line with what it has been, a "burden" our economy already has carried.

As a matter of fact, I argue that the increasing cost of retirees to the workforce is an offset to the benefit of avoiding overpopulation. Somebody mentioned earlier that one of the things that could "solve the problem" would be a higher birthrate. Well, maybe we would not have a Social Security problem, but I suspect we would have a panel discussion on the problems of overpopulation and how to deal with them. So I believe that the Social Security projections must be viewed in the context of the overall economic and social implications that they, and the assumptions that are used, imply.

The intermediate assumptions show a changing but highly manageable demographic distribution, especially in the context of the economy that is projected to be perhaps seven times as wealthy and five times as productive as now. On the other hand, if one wants to make a proper and complete assessment of, for example, pessimistic assumptions -- which project having 6 percent unemployment indefinitely and a 1 percent growth in real wages -- then I suggest to you that the direct economic and social stresses would be much more significant throughout our society, than the indirect impact through the effect on Social Security costs.

Where does that lead us? Admittedly, long-term revenues and expenditures are out of balance, but cutting or restricting benefits is not the only option. Higher revenues are a viable option. The economy can afford that. Older people will share one way or another in the total output of the society, and others will share the cost of that. As I previously mentioned, deferred retirement could impose hidden costs on younger workers. No form of financing is clearly best. An explicit payroll tax does have its merits. It introduces a discipline and it also has a political ownership value; I believe that there would have been much less outcry from people against changes in Social Security benefits had they not been contributing to the program. But that does not mean that payroll taxes should be the only form of financing the system. The idea of general revenues has been, as was mentioned in the Bartlett paper which was distributed just before we came to this meeting, in the picture from the very beginning. Many of us feel that could be used in the near future, but in the context of today's discussion -- the question of whether or not the retirement age would need to be raised -- I remind you that we are talking about financing that will be needed after the year 2000. In that sense, the question, of whether or not general revenue financing could be available and would be feasible, has to be put in terms of the next century -- not next year. That is when the money will be needed in order to deal with the demographic impact of the changes in the older portion of the population.

In conclusion, I suggest to you that a wealthy economy -- which is what the United States should have in the 21st century -- can permit its members to achieve an optional work status for a significant part of their life. Longer retirement opportunity, with adequate income -- not just old-age unemployment -- should be one of the standard-of-living advances which we will be able to afford in the future.