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THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Moderator: STEPHEN G. KELLISON. Panelists: ROBERT J. MYERS, JAMES R. SWENSON, JAMES E. COWEN

1. What is the current financial status of the OASDI and HI programs -- short range and long range?

2. What should be done to solve the financing problems?

3. What are the goals of the NCSSR in solving these problems? What recommendations has it decided upon to date?

4. What would President Franklin D. Roosevelt think of the current situation and possible solutions to the problems?

5. What opportunities exist for actuaries and other concerned citizens to influence the decision-making process with NCSSR and the Congress?

6. Does the general public adequately understand the issues? Does the actuarial profession have a role to play in improving this understanding?

MR. STEPHEN G. KELLISON: My name is Steve Kellison. I am the Executive Director of the American Academy of Actuaries. I will introduce each of the panelists as it is their turn to speak. Howard Young, who was originally on our panel, is not able to be with us today because of a sudden turn of events in the Chrysler negotiation situation.

The importance of the Social Security debate currently going on in this country is self-evident. Its significance cannot be overemphasized. Moreover, the issue is moving to some sort of resolution of necessity. Many of you have probably heard reports that the OASI Trust Fund will run out of money in mid 1983. We now hear reports that the first interfund borrowing will be necessary in November, so the time for action is now.

Our first panelist is Bob Myers, who is the Executive Director of the National Commission on Social Security Reform.

MR. ROBERT J. MYERS: Over the past few years, the cash-benefits portion of the Social Security program has moved from one impending financial crisis to another. It is no wonder that many beneficiaries are greatly disturbed about whether the program will soon go into bankruptcy, so that they would no longer receive their checks. Also, it is not surprising that most young workers doubt that the system will be in existence when they reach retirement age. And it is certainly true that, under existing law <u>if there is no change</u>, such fears will be realized.

But I hasten to say that this dire situation will not occur. It is a certainty that the Reagan Administration and the Congress working together will prevent this. After all, a number of possible solutions for both the short-range and long-range financing problems have already been extensively studied.

In early 1980, it was widely recognized that the Old-Age and Survivors Insurance Trust Fund would have insufficient assets to meet benefit payments in a timely manner by late 1981. If a trust fund doesn't have enough money to cover the checks due to go out, the checks would be held up until enough taxes had come in to pay them. As a result, stop-gap legislation was enacted that transferred monies from the Disability Insurance Trust Fund to the OASI Trust Fund for 1980-81. This pushed back the problem by about a year -- to late 1982.

When the Reagan Administration took office in early 1981, this short-term financing problem needed to be solved -- as well as a significant long-term problem, according to the intermediate-cost estimate (Alternative II-B of the 1982 Trustees Report), beginning about 40 years hence. The Administration proposed a package of benefit changes in May, 1981 that would have solved the short-run problem -- even under pessimistic assumptions as to future economic conditions. The long-range problem also would have been solved -- and, in fact, to such an extent that payroll tax rates could ultimately be reduced somewhat from those scheduled in present law (if the experience is similar to that assumed in the intermediate-cost estimate).

This package of recommendations, however, ran into difficulty because a few (although by no means all) of the proposals met with widespread public disapproval -- particularly, the ones involving the almost immediate sharp reduction in the benefit rates for persons retiring at ages 62-64 and the elimination of the minimum-benefit provision for persons currently on the roll. As a result, the Democratic leadership in the House of Representatives put a stop to virtually all efforts to resolve the financing problem. A few cost-reduction changes were, however, made in 1981 -- e.g., the elimination of the minimum-benefit provision for new eligibles and the gradual phasing-out of child college-attendance benefits.

In order to get things moving again, President Reagan proposed in September 1981, that a task force be formed "to propose realistic, long-term reforms to put Social Security back on a sound financial footing and to forge a working, bi-partisan consensus so that the necessary reforms can be passed into law". This proposal was accepted by congressional leaders, and the National Commission on Social Security Reform was created in December.

The National Commission has 15 members, with equal numbers appointed by the House, the Senate, and the President. Its membership consists of 8 Republicans and 7 Democrats representing a wide range of political philosophies. The Chairman is Alan Greenspan, former Chairman of the Council of Economic Advisers and currently a member of the President's Economic Policy Advisory Board. The membership includes four Senators and three Representatives, as well as two former Representatives. Other members include Robert A. Beck, Chairman of the Board and Chief Executive Officer of the Prudential Insurance Company of America and Lane Kirkland, President of the AFL-CIO. Each member has designated a technical adviser, and two of them are actuaries, Jim Swenson and Howard Young. There is a staff of twelve professional people, half of them on loan from the Social Security Administration. This includes one actuary, Bruce Schobel.

Turning back to the financial situation of the OASI Trust Fund, it was recognized in late 1981 that, once again, the prospect of not having ample funds to pay benefits in a timely manner was again imminent -- probably in late 1982. As a result, stop-gap legislation was enacted in December 1981 that permits the OASI Trust Fund to borrow from the DI Trust Fund and the Hospital Insurance Trust Fund. However, Congress "held its feet to the fire" by providing that such borrowing cannot be done after 1982, and furthermore, cannot be in excess of what is needed to guarantee payment of benefits during the first 6 months of 1983. Accordingly, once again, a financial precipice looms -- at the beginning of July 1983, when the OASI Trust Fund will not have sufficient assets to provide for the benefit checks, amounting to about $13 billion due then to the approximately 32 million OASI beneficiaries. Even if inter-fund borrowing were permitted to continue, the critical point would not be delayed much beyond the end of 1984, unless economic conditions were extremely favorable.

The National Commission is required to report by the end of 1982. It has available the recommendations made by several other recent study groups. To date, the meetings have been largely of an exploratory nature -- to determine whether a financing problem exists (and, if so, its magnitude) and to consider possible ways to solve the financing problem, both short-range and long-range. Our next meeting will be held November 11 to 13 and it appears that our decisions will be made then.

The extent of the short-range financing problem depends mostly on the economic conditions which will occur in the near future and also on whether one considers only the OASDI system or whether, if permanent complete interfund borrowing were legislated, one considers the combined OASDI-HI system. Considering only OASDI, it is currently estimated by the SSA actuaries that, in order for the system to be viable over the next 5 years (with a fund ratio of 15% -- almost the bare minimum desirable -- at the end of the period), additional resources of about $60 billion would be necessary under the intermediate-cost (Alternative II-B) assumptions, and about $125 billion under pessimistic (Alternative III) assumptions. The vast majority of the difference in these two estimates arises because of differences in the economic assumptions.

It should be noted that the additional resources could come either from increased tax or other income or from reductions in the growth of outgo (or a combination of the two methods). If interfund borrowing with the HI Trust fund were allowed, these figures would be lower, but still additional resources would be needed, unless extremely favorable economic conditions occur. However, it should also be noted that the HI Trust Fund is itself facing serious financial problems that may lead to its bankruptcy in the late 1980s or early 1990s.

The financing situation for OASDI in the intermediate future -- the late 1990s and the early 2000s -- is shown to be quite favorable under the intermediate-cost estimate (II-B), with income exceeding outgo by about 1-1/2% of payroll. This occurs because of the tax-rate increase scheduled for 1990 and the favorable demographic situation as the low birth cohorts of the late 1920s and the 1930s constitute most of the retirement-age population. However, if economic conditions -- especially the relationship of wage increases to price increases -- are more pessimistic than assumed in the intermediate-cost estimate, this favorable financial situation will not occur.

The intermediate-cost estimate shows an average lack of actuarial balance for the OASDI program of about 1.8% of taxable payroll over the 75-year valuation period. This general situation has prevailed ever since the 1977 Amendments were enacted. Quite obviously, the optimistic cost estimates in the 1982 Trustees Report shows that the long-range situation is more favorable -- and, in fact, that no imbalance is present, while the pessimistic cost estimate shows a much larger long-range imbalance.

The HI program has a favorable cash-flow situation in the immediate future, in part because of the scheduled HI tax rate increase scheduled for 1986 and in part because of the changes made in the recently enacted tax legislation (Federal employees being covered for the HI tax -- but not the OASDI tax -- beginning in 1983 and cost-control provisions being introduced for reimbursement of hospitals). However, beginning in the late 1980s or early 1990s, serious financing problems occur (primarily, due to the assumption in the actuarial cost estimates that hospital unit costs continue to increase more rapidly than the general wage level).

In the long run, of course, when the post World War II baby boom comes along and with increased life expectancy, after 2020 or 2025, the cost of the system is much higher than the income and the differential is roughly 4-1/2% of payroll beginning in the year 2030. There is, according to the intermediate estimate, a real problem. However you can take certain optimistic assumptions and say there is not going to be any problem. There are different views on the part of the members of the Commission as to the magnitude of this problem.

If you project ahead, the situation never gets better as it seemingly does for OASDI in the 1990's and early 2000's. For HI at the end of 25 years, the tax rate is 4% insufficient; if you project 75 years, this differential increases to as much as 7%. Again, there are some people who say, you don't really need to worry about this. We have just got to somehow fix up hospital reimbursement or hospital costs containment and this will solve these particular problems.

This month, for the first time, the OASI Trust Fund sold marketable securities to the Treasury at market value. (They were not sold on the open market since that might have had effects on the government bond market). Also, just as the actuaries of SSA estimated, the Trust Fund in November is going to have to use the interfund borrowing for the first time in order to meet benefit payments. The OASI Trust Fund really gets at a low level after the benefit checks go out and I estimate that at the beginning of this month the OASI Trust Fund had a mere $1 to $1-1/2 billion after the benefit checks went out. That seems like a fair sum of money until you realize that the monthly outgo is about $11-1/2 billion. So that $1 to $1-1/2 billion will build up this month and by the end of the month may get up to somewhere approaching the $11.7 billion that will have to go out, but it will probably be somewhat insufficient and the first interfund borrowing will have to take place.

MR. KELLISON: We now will have two panelists who will discuss in more detail the options that exist for solving some of the financing problems. Our first one will be Jim Swenson, who is an actuary with Prudential. As Bob has indicated he does staff work for one of the fifteen members of the commission. Jim has been very active in Social Security issues over the years, including a recent stint as chairman of the Academy's Committee on Social Insurance.

MR. JAMES R. SWENSON: I am going to make two breaks with tradition. First, I am going to actually answer the questions that are posed on the agenda and second, I am going to do it in thirty seconds. If you'll follow along, the answers are manageable, really bleak, legislation, bipartisan agreement, none, hard-to-tell, constitutional freedom to speak, no, yes, and the Milwaukee Brewers.

There is no question about how important Social Security is to our society. Thirty-six million people are receiving benefits from the program today and most of these people rely upon those benefits as basic income. There is no question either that Social Security has some very real problems, but there are reasonable solutions to those problems and those solutions don't have the dire consequences that people imagine. Today, I will first describe what I perceive to be the major problems and then, recommend a course of action to solve those problems.

I believe there are four major problems that confront the Social Security program. The first problem is the lack of public understanding. Over the years people were led to believe that Social Security was a funded insurance program. As a result, when they receive benefits, they feel they are really just getting back what they have contributed to the system. But that is not what happens. The Social Security taxes collected from workers and employers today, are paid out almost immediately as benefits. Money now collected from our paychecks is still warm when it reaches our mother-in-law's mailbox. Current retirees receive benefits equal to their total contributions in 1-1/2 years or less. If interest is taken into account, as it should be, the period of payback lengthens to only 2-1/2 to 3 years because the vast majority of the contributions have been paid during just during the past several years. That is, current recipients are really receiving substantial windfalls under the program and those windfalls are to be paid for by future generations.

The second major problem is the public lack of confidence in the program. It has reached an all-time low. People see headlines about the danger that the Social Security program will run out of money, and they are worried. Three out of four persons between the ages of 25 and 44 say they have little or no confidence that the program will be able to pay them benefits when they are ready to retire. Many of the elderly are terrified. They are afraid their monthly benefits are going to be drastically cut. Nobody in Washington and no responsible study group has ever recommended the kinds of cutbacks that many of our older people fear. So their fears must be removed. Restoring confidence in the Social Security program is critical.

Short-term financing difficulties are the third major problem. The retirement fund, the disability fund and the Medicare hospital fund are the three major funds. The largest of the three -- the retirement fund, will run out of money by the middle of next year unless legislative action is taken. The primary reason that the program is faced with these problems is that the benefits have increased much more rapidly than the taxes collected. During the past three years, benefits, which are CPI indexed, rose 40%. But average wages only increased by 30%. That is the primary cause of the short-term problem. If benefits had been increased by 30% there would not be a National Commission on Social Security Reform as there would not be a short-term financing problem.

The fourth major problem is the more severe long-term financing problem. It is caused to a large extent by demographics. The elderly population has been growing steadily. In 1935, only 6% of the total population was over age 65. The figure increased to 9% by 1960 and now stands at 11%. Once the baby boom generation retires, the percentage of people over age 65 will be around the 20% range. That percentage is greater than the percentage over 65 living in Florida today. Moreover, as this audience knows, life expectancy is improving rapidly. In 1940 the life expectancy of a person age 65 was 12.8 years, now a person who reaches that age can expect to live 16.6 more years. In the years ahead, people will no doubt live even longer. That is great news, but it does place a financial strain on the system. One demographic change that is now helping the program will hurt the program seriously in the future. The post-World War II baby boom is helpful right now, because there are more workers paying taxes. The number of workers supporting each beneficiary now stands at roughly 3.2. When the baby boom generation retires, there will be only two workers to pay the benefit of each beneficiary or even fewer if our birth rate does not increase. Unless changes are made in the Social Security program, our children and grandchildren will pay combined Social Security tax rates, including both parts of Medicare, of approximately 34% of payroll using the II-B best estimate assumptions.

The short-term problems are the result of adverse economic conditions. CPI indexed benefits have increased more rapidly than wages. The long-term problems are the result of unfavorable demographics in the baby boom generation. In addition, the program has been greatly expanded. Franklin Roosevelt would hardly recognize Social Security today. It has evolved far beyond what was originally envisioned or intended. The bill that he signed into effect in 1935 provided modest cash benefits to workers who retired after age 65. Back then, employees and their employers each paid Social Security taxes equal to 1% of the first $3,000 of earnings. The maximum amount that any individual paid was $30 per year and that maximum remained in effect through 1949.

Over the years, there has been a substantial expansion in both the types and amounts of Social Security benefits paid. This year payments to Social Security recipients will exceed $200 billion, more than the government spends on defense and more than one-quarter of all federal expenditures. The maximum tax for both the worker and the employer is now $2,171. That represents a tax increase of more than 7,000% since 1949.

The Social Security program has been expanded again and again. In the past, benefits could be added without any serious effect on current costs. Social Security was not yet a mature program, and was financed on a pay as you go basis. The actuaries may have known the cost implications of the benefits which were being added, but the general public did not. The effects of some of those deferred costs are now beginning to be felt. As Senator Dirksen said, "A billion here, a billion there -- it all adds up and sooner or later, you're talking about real money".

The problems I have just mentioned are significant. However, the good news is that there are solutions to those problems. Further, those solutions do not require any reductions in current benefits as people fear. Legislation will soon be required to solve the Social Security financing problems, and Congress has two choices: Either increase taxes or control the growth of future benefits (or some combination thereof).

One way to increase taxes would be to use general revenues. Using general revenues, as some advocate, is really not a solution at all. It is like asking Conrail to bail out Amtrak. The prolonged budget debate in Washington has provided ample evidence that there are no general tax revenues available. Increasing the federal deficit would only weaken the economy and create more inflation. In the end, using general tax revenues would weaken the relationship between benefits and the way they are financed, and also weaken the economy thereby leading to still higher taxes. A more appropriate approach would be to increase payroll taxes. However, such taxes have increased enormously. Since 1949, average wages have increased 470%, average Social Security taxes increased 3,700% and as I indicated earlier, maximum Social Security taxes have increased by 7,000%.

Should Social Security taxes be increased further? It should be recognized that the Social Security legislation enacted in 1977 brought with it the largest peacetime tax increase in the history of the country; four tax rate increases have already gone into effect and three more are scheduled within the next decade. There was considerable public resistance to those tax increases, and they have already proved insufficient. This opposition to further increase the payroll taxes received support just today from a source that I really didn't expect, the Washington Post, which is not noted to be one of your more conservative newspapers. They state, and I quote from the editorial today, "Social Security beneficiaries have been better protected against inflation than the average worker and taxpayer in recent years". This is the 30%/40% issue that I mentioned previously. "Now with so many workers facing unemployment limiting benefit increases would be fairer than adding greatly to the payroll burden."

Most economists feel that workers ultimately pay not only their own Social Security taxes but also, in effect, those paid by their employers. By 1990, the maximum tax for employees and employers is expected to be more than $4,600 apiece. So a worker subject to the maximum tax will be responsible for the transfer of more than $9,000 a year to people receiving Social Security benefits.

The other option -- controlling the growth of future benefits -- is a much more acceptable solution and it can be accomplished by gradual changes that will permit ample time for people to do appropriate financial planning. Such changes can and should be made without reducing the benefits of people who are currently receiving them or planning to retire soon. You should avoid the precipitous changes that were, unfortunately, recommended by the Administration last year.

A number of steps can be taken to solve the short-term financial problems of the Social Security program. Future increases in the cost of living adjustments should be limited. People should be protected from inflation, but full indexing of Social Security benefits to the faulty Consumer Price Index, as has been done since 1975, is excessive. The Consumer Price Index overstates the rate of inflation, and tying increases to it actually contributes to inflation. Consideration must be given to alternatives such as indexing benefit increases to average wage increases adjusted for some assumed productivity growth. The National Commission is considering a recommendation of that nature. Benefits would still increase, but they would not rise faster than the taxes that pay for them. This would help to preserve the solvency of the program and stabilize it, protecting it from adverse economic conditions.

There are many other actions which could be taken to solve the short-term problems. For example, we should eliminate unintended windfall benefits, the disproportionately large benefits received by public employees who do not fully participate in the program. Benefit increases could also be deferred. Members of both political parties have recommended postponing cost-of-living increases for Social Security benefits for a three month period. That would be a small price for the elderly to pay for eliminating the anxiety of beneficiaries and assuring the solvency of the program.

Finally, Congress should complete the correction of the faulty indexing procedures enacted in 1972. That error was largely corrected in 1977, but benefits were locked in at a higher level than existed in '72 and that Congress originally intended. There are proposals such as the bend point proposal that was made last year that would gradually complete that correction.

What about Social Security's long-term problems? They are much more serious, and the solutions require more significant changes. When the baby boom retires, tax rates to support benefits currently promised are expected to be, under the best estimate conditions, equal to 34% of payroll. My hairline notwithstanding, I am a representative of the baby boom generation and my children are representatives of the baby bust generation. I do not want to leave a legacy of a 34% tax rate to my children. If the program is to have long-term financial viability, future benefit promises must be realistic. The long-term problem is caused by demographics. It warrants a demographic solution.

One such solution is to gradually raise the normal retirement age from 65 to 68. Such a change should not be put into effect immediately or all at once, but should be done gradually with the first step beginning sometime around 1990. This is a much more modest change than many people realize. By the year 2000, the official actuarial projections indicate that people who reach age 74 will have the same life expectancy as people age 65 back in 1940 when that was the age selected to receive full benefits. Raising the retirement age would help reduce Social Security's long-term deficit, and there is widespread support for the idea. It has been recommended by virtually every study group, and last year, a New York Times poll indicated public support for the idea by a margin of 5 to 4.

Mandating universal coverage would also help solve both the short and long-term financing problems. At present, civilian employees of the federal government (including Congress and the President) are not covered by Social Security. Participation is elective for state and local government employees and employees of non-profit organizations.

Everyone should be covered by the program. There are ways to accomplish this without causing people to lose benefits that they have accrued under other retirement programs. This is yet another measure that virtually every study group has recommended.

It has become apparent that our nation must also encourage people to plan and provide for their own financial security in retirement. President Carter's Commission on Pension Policy was right. This country has become far too dependent on pay-as-you-go financed programs. The dependence must be gradually reduced through the encouragement of individual savings and the expansion of the private pension system. Legislation enacted last year that permitted all workers to open IRA's was a big step in the right direction. The need now is to raise those limits and to permit mandatory employee contributions to qualified pension plans to be eligible for tax-deferred treatment. Needless government regulations that interfere with the development of private savings and private pension programs should also be eliminated. The Reagan administration's efforts in this regard deserve our support, TEFRA notwithstanding. The government should encourage, not discourage, the expansion of the private pension system. This is important for another reason. Making it possible for everyone to look forward to a secure retirement requires a strong and productive economy. I think that is no more evident than when you consider what has happened during the past decade. Private pension plans and individual savings are a major source of capital formation -- they provide funds needed to improve economic productivity and create jobs. Social Security fails to provide that capital because it is a transfer system.

As Bob Myers indicated, President Reagan and the Congress established the National Commission on Social Security Reform. One of the Commission's primary objectives is to remove the emotionalism that surrounds Social Security so that reasonable people, working together, can reach agreement on reasonable solutions.

There are reasonable solutions available. The consequences of the changes that I have mentioned today are not severe, but if nothing is done, the consequences of inaction will be very severe. There is an urgent need to remove the uncertainty and anxiety that exists today and to restore confidence in the Social Security program. Actuaries have an important role. You understand the program and should communicate that understanding to the general public. In addition, you should let your legislators know your concerns and recommendations. Our older citizens must be reassured that the solutions do not require cutting present benefits. Young people must be made to believe that the program will indeed survive and pay them benefits, and that any changes made concerning their benefits will be gradual ones that permit them time for planning. The public must understand that the problems can be resolved without resorting to nonexistent, general tax revenues. Public policy makers in Washington must be persuaded to enact the types of reforms needed to allow Social Security to serve its vital role not only for this generation but for future generations as well. Decisive and intelligent action is needed now.

MR. KELLISON: Our third panelist is a substitute for Howard Young, who is unable to be here today. Jim Cowen is the Director of Research in the Society of Actuaries. That is relatively short period of his employment actually. Most of his career has been spent with the Railroad Retirement Board so he does have significant experience with governmental and social retirement and insurance programs. He's also been a consulting actuary, so he does have a broad background to bring to this panel.

MR. JAMES L. COWEN: As a substitute for Howard Young, I would first like to read Howard's prepared statement. Then I will give some of my own views.

The financial status of the Social Security programs is about as was projected under the assumptions characterized as "II-B" in the 1982 Trustees' Report. The outlook depends, of course, on the assumptions one chooses to make for the future. While there isn't basis for optimism about the immediate future (i.e., the next year or two), we should resist any inclination to be overly pessimistic, especially when looking beyond that immediate period. The prevailing assessment of the nation's economic growth and progress has been overly influenced by experience of the last decade; certainly we have been going through a transition in order to accommodate to changing economic arrangements internationally, but our underlying real assets - that is land, materials, productive facilities, and people - are capable of providing major gains in the future.

In that regard, I have pointed out (in a similar panel discussion exactly one year ago, and in a letter published in the September, 1982 Academy Newsletter) that we should carefully examine the appropriate way to provide "actuarial conservatism" in Social Security financial projections. Specifically, the recent GAO finding that actuaries indicate a preference for a moderate degree of conservatism in the assumptions is no surprise. We're all taught the advantages of actuarial conservatism, which means that the client or employer has some protection against loss due to our projections being wrong. However, conservatism is measured in relation to the type of risk involved, and who bears the loss due to wrong assumptions:

we increase assumed mortality when death benefits are involved, and decrease it when annuity benefits are involved. Since actuaries for the Social Security system represent the interests of current beneficiaries as well as current taxpayers - and the future interest of both groups - I suggest there is no more reason for them to introduce conservatism in favor of one group than for the other. In particular, if they use pessimistic assumptions, there is no margin against the risk of loss by current participants (i.e., underpayment of benefits) if those assumptions prove to be wrong. In view of the overall responsibility which the Social Security actuary has, "most probable" assumptions appear more appropriate than those which are conservative (biased) in either direction.

Therefore, I'm inclined to use those "II-B" assumptions as a basis for decision making, with explicit recognition that many of the variables can show substantially different results, especially when projected far into the future. In addition, it is very important to note the difference between the cash benefits and health care portions of the program. The latter depends on appropriate organization and control - since its obligations are in terms of charges by health care providers - rather than on the financially oriented arrangements which are appropriate for the cash benefit programs. Perhaps the instruction - to the recently appointed Advisory Council - to concentrate on health care issues, will result in separate legislative consideration of action which should be taken on the cash benefits under OASDI.

What should be done to solve the financing problems depends at least as much on preferences regarding the role of public programs, and the resources to be designated for retiree's income, as it does on actuarial analysis. The Social Security system is, after all, simply a way to provide income to specified beneficiaries; the system itself will not fully determine how many older people and other beneficiaries there are, nor will it necessarily determine what portion of the nation's output go to them in any year. That's not to suggest that the system won't have any effect on those matters; rather it means that there will be at least partially offsetting effects (through private pension plan and other savings arrangements, changes in the employed group, etc.) to any changes in the Social Security system. Thus, while actuarial considerations may influence the specifics of any change, the more fundamental, and non-actuarial, decision is whether to provide more revenue, less benefits, or some combination of the two. My preference is for more revenue, especially since the "II-B" projections indicate (as shown in the Trustees' Report) that the expenditure will be about 5% of GNP for the entire 75 year period. Furthermore, even though those projections indicate that combined employee-employer payroll tax rates for the cash benefits would rise from the current 10.8% to about 16 1/2% over the next 50 years, the percentage of total compensation (including fringe benefits) goes from roughly 9% now to 10 1/4% in 50 years; that is because taxable wages are assumed to become a smaller portion of total compensation: 62% then, as compared with 84% now.

As was also pointed out in my letter to the Academy, some important technical questions - like the relationship between payroll and compensation, the increase in real earnings, and even future fertility rates - are not areas of special expertise for actuaries; for example, we all learn about mortality, but few of us need to know about fertility, at least not for actuarial exams. Nevertheless, there are important roles for actuaries in informing and influencing the Commission, Congress and the Administration, and the public regarding Social Security.

For example, we can help to explicitly distinguish between the economic issues of this decade, and the demographic issues in the next century; we should point out that the demographics actually get less burdensome for the next 25 years or so, before the "baby boom" retires. We should also use our skills, in analyzing long-term projections and understanding their implications, to put the Social Security figures in better prospective: What if the nation had to accommodate to more rather than fewer births? What are the total economic implications (not just the Social Security results) of the pessimistic assumptions, and what questions does that raise about the viability of alternative retirement arrangements, etc?

We certainly should use our employee benefit plan expertise to explain the strengths of the Social Security system and its benefit structure, as compared with alternatives; does any one of us really believe that private promises - whether from employers or debtors - are more secure than a U.S. government program? We should explain - with respect to various proposals to change OASDI - the impact on private pension plans (including, for example, the impact on plan assets if private pension plans increase the full benefit retirement age in tandem with proposed changes in Social Security), the reduced total income to plan participants, and the increased total cost to employers or participants if private plans try to offset those Social Security changes. We also should propose creative solutions for the problem of adapting Social Security to the changing role of women and of family relationships.

Finally, we should help the public understand the role of the Trust Funds and that their holdings of government securities has the same contractual significance as the way all insured or trusteed programs function: all hold somebody's promise to provide cash in the future. We also should help the public distinguish between OASDI and other programs - such as SSI - administered by the Social Security offices; confusion about their operations and financing leads to fuzzy thinking about the real problems and possible solutions of each.

Actuaries have an important role in the decision-making process on Social Security: partly in our capacity as experts, but more importantly as well-informed people who should debate our value preferences with others whose views and values are entitled to equal consideration.

That's for Howard.

I would now like to make a few remarks of my own. Jim Swenson mentioned that the public tends to compare Social Security with cash value life insurance. Social Security is more like casualty insurance. Cash value life insurance is a combination of term insurance and savings. Casualty insurance pays benefits only when the risk insured against occurs; for Social Security, that would be loss of income due to death, disability or retirement. We should try to make this clear to the public. I have heard at Society of Actuaries meetings more comparisons of Social Security to cash value insurance than any place else and this is detrimental to the public's understanding. Another point is that there are two principles involved, one is setting when benefits should be paid and the other is setting the amount of the benefits. Benefits should be paid at death, disability or retirement. The amount of benefits should be based on the level of presumed needs of the people who are going to receive the benefits. In some instances there are no needs as the case of a single individual who dies with no heirs. In the case of a large family with minor children, the presumed needs are great. Therefore, benefit amounts are set based on presumed needs, but are necessarily dependent on when benefits should be paid.

We also must consider Social Security as just one part of the total economic and social system of the country. We cannot consider it in a vacuum. Too often I have heard that our expertise is strictly in financing and we should stick to that. If we as actuaries are going to stay at that level we are not going to have any influence at all. I have also heard at Society of Actuaries meetings that the best estimate should not be used. Having testified to Congressional committees over the years I know that they are not willing to accept a range -- they want to be told what your best estimate is. I am happy to hear that the II-B estimate and not the II-A is being used as the best estimate. We have to go with the best estimate; however we should also show the range.

MR. KELLISON: I will now ask each of the three panelists in turn to briefly comment on the presentations of the other two and then we will open it up for audience participation.

MR. MYERS: First, Jim Cowen, for Howard Young, made the statement that the demographics actually gets less burdensome for the next 25 years or so. I don't think this is the case. What happens is they don't keep getting worse. In other words if you look at the ratio of the aged population to the working age population you have a plateau for a number of years rather than the continual rise we have had in the past and that we will experience after 2010 or 2015. If you look at the total dependency ratio of children plus aged to working age there is a slight decline, but not very much so and it would not decline at all if you did not weight the cost of taking care of a child as the same as the cost of an aged person's support.

The second point that I want to make is how dependent the cost estimates are on the economic assumptions. Alternative II-B, which I support as a good tool for long-range cost analysis, assumes that real wage growth (the excess of the increase in wages over the increase in prices) will be 1-1/2% a year. That will be very nice if we get it, but it must be realized that if that assumption were just a little more pessimistic, say 3/4% or 1% per year, the 1990s and afterwards would not look nearly as encouraging from a cost standpoint unless there was some sort of a stabilizing device introduced in the system. We want to recognize too that the real wage growth in the 1970's was minus 1/2%, not plus 1-1/2%.

Finally, there are comparisons that are made of the cost of Social Security relative to GNP. I somewhat question this. I support completely the Office of the Actuary's estimates as a percentage of payroll, but I do not agree that the estimates of GNP which derive from the estimates of total compensation are as sound as they might be. In particular it is assumed that total compensation grows much more rapidly than wages due to the fringe benefit growth. I wonder whether the fringe benefit growth will be as much as they assume. Productivity is assumed to increase at 1-1/2% a year in the early years and to as much as 2% a year over the long run and I question whether that is a reasonable assumption, let alone, conservative, where I use the word conservative to equal the word reasonable.

MR. SWENSON: I agree with Jim's and Howard's statement that we should resist overly pessimistic assumptions for the long-term projections. However, I think in the short-term, given the very small margin of trust funds available, that pessimistic assumptions are warranted. Howard in his remarks indicates that the economic assumptions perhaps have been overly influenced by the economic conditions of the past decade; I would just like to note that the real wage gain, that is wages adjusted for prices during the past decade, were a negative .6% whereas the long-term II-B projections assume a positive 1.5% real wage gain and a reduction in the unemployment rate to 5%. I question whether or not this is truly overly conservative. Let me point out that I have had a number of discussions with the actuaries in the Office of the Actuary and I have been extremely impressed with the way in which they go about making their long-term assumptions and I think that the II-B assumptions are assumptions that can and should be relied upon.

Now Howard's analysis of cost unfortunately ignores the Medicare program and to ignore the Medicare program beyond a 25 year period is to ignore demographics (baby boom generation) and the fact that health care costs are rising more rapidly than the CPI. I just don't see that the forces are there to control health care costs. If you consider the Medicare program in relation to GNP (though I agree with Bob Myers comments about the GNP projections) you find that total costs will rise to 12% of GNP once the baby boom generation retires; it should be recognized that the total federal budget today is roughly 20% of GNP. That helps to put that GNP figure in perspective.

I agree with Jim Cowen that you can't consider Social Security in a vacuum. Policy decisions have to be made on the basis of impact on the economy and they have to appropriately consider the role that private pensions and individual savings can have. The President's Commission on Pension Policy that was formed by President Carter did that.

Finally, Howard suggests that there be more revenue. I should just mention that one of Howard's recommendations is to eliminate the maximum wage which would be paid for by employers. It should be noted that most economists will agree that the worker ends up paying for the employer's tax either as consumers through higher prices or through decreased wages. In the short-term any further increase in the cost of labor will result in a reduction in demand, hurt our foreign trade position, and it will further weaken the economy and increase unemployment. This is the reason that the Washington Post has made its editorial recommendations.

MR. COWEN: Jim and I are agreeing more today than we have in a long time. I have already mentioned that the funded insurance analogy is misleading. As far as the public's lack of confidence, I am 100% in agreement with Jim that that is one of the major concerns. How do we go about changing that? The most important thing we have to do is educate the public as to what Social Security is. Is it an insurance program, is it an intergenerational transfer program, is it a welfare program, what is it? I don't think there is any agreement as to what it is. Then we have to decide what we want it to be. One of the things that is really needed is a good debate as to what Social Security should be so that the people would get to know it.

We must realize that when we make comparisons we should not compare the immature program of the 1930's and '40's with the mature program of the '80's. I have heard that done too many times; it is misleading and anyone who does it can lose credibility very quickly.

Jim Swenson mentioned the faulty CPI. I would like to know what he means by that. From what I've heard, I agree that the elderly have a different market basket mix, but I'm not so sure that if you took a true CPI for the elderly you would come up with a lower index. You might come up with a higher one, especially in view of what is happening to health costs. Health costs have been going up faster than the rest of the CPI. Jim Swenson said that he sees no turnaround in that; hopefully he is wrong because if health costs continually go up faster, we are going to be in real trouble when the baby boom reaches retirement age. Hopefully something will have to be done to put these costs under control.

There is a paper in the preprints that just went out on the experience under Medicare with the HCFA people. They comment that only 81% of total medical charges for part B are covered by Medicare and since only 80% of covered charges are reimbursed, only 65% of total medical charges are being reimbursed. That gets scary, and the actual situation is even worse because the charges they are talking about include those where doctors take assignments which are 100% covered. If you eliminate the experience where doctors take assignments, then the percentage of medical charges that are reimbursed gets real scary and the question arises as to whether or not the program is meeting the needs of the public.

MR. KELLISON: As you can see, we can continue to go in the same format and have a great debate, but this was intended to be an open forum so we will open it up for questions from the audience.

MR. ERNEST J. MOORHEAD: My name is Ten Grand Moorhead because my wife and I are now getting ten thousand dollars a year out of the Social Security system that is in so much trouble. I feel that I should help the system along a bit in light of that. I have just three short observations. First of all, although I agree with a great deal of what Jim Swenson said, I did find his 7,000% increase just a trifle on the sensational side. The comparison between a new Fellow's salary today and the $3,300 that I got as a new Fellow in the year that the Social Security system got started is also somewhat sensational, but I do not begrudge the new Fellows that difference. Times have changed.

I think, as Jim Swenson does, that there is a flaw in the CPI, but I find a different flaw from the one he finds. The flaw in the CPI as applied to Social Security is applying a percentage at all. In the case of 1982, instead of being 9.4% on everything, it should be 9.4% on the subsistence part of the Social Security benefit and maybe half of that on the excess. That would tone it down without at all hurting the people who are in the position of being heavily dependent on the consumer price increases.

Then we get to what Bob Myers recognizes as being my favorite topic. If the benefits are to be taxed, as I greatly believe they should be, is it really wise to go along with the system of taxing half the benefits on the theory that half of them comes from the employer's contributions? Or would it be better to tax the windfall part of it, that is, the excess that Jim Swenson referred to of what beneficiaries are getting beyond what was contributed by them and their employers. In other words, a deferred tax starting at the time they got their money back and applying to the entire benefit from then on.

MR. MYERS: The National Commission has considered proposals to tax benefits. As usual, Jack has very great logic about taxing Social Security benefits on the same basis as private pension plans. The big problem is that he does not have many votes. Congress has taken this issue up a number of times, and almost without exception, it has unanimously said: "No, we will never tax Social Security benefits." This may not always be the case, but it may take years of education to convince people there are merits to this approach. There is always the question of not only logic, but also politics.

MR. SWENSON: I would like to thank Ten Grand Moorhead, for his very wise counsel, and I frankly admit that the 7,000% is a sensational figure, although I did balance it by saying there was a 470% increase in average wages. Jack appropriately recognizes political rhetoric. With respect to the CPI, there are two fundamental flaws in the CPI in addition to some of the flaws that Geoff Calvert has mentioned. First, is the way in which housing cost is treated and that is going to be corrected in 1985 for the index that is used for adjusting Social Security benefits. Second is that a fixed out-of-date market basket is used. A fixed market basket has an upward bias. Incidentally, studies have been made that compare the elderly's market basket with the non-elderly market basket and those studies conclude that over a long period of time there is really no significant difference in the rates of increases that result. There is a price index that is available called the "Personal Consumption Expenditure Deflater" that does not have these two major problems and it has been producing price increases 2 to 3% less than CPI during the past five years.

With respect to taxation of the benefits I would agree with Jack that the proposal that he has made is a good proposal. The problems really are, as Bob suggested, political ones. The Committee for Economic Development reviewed retirement income in general and their ultimate conclusion was that employee contributions made to both the Social Security program and to private pension plans should be tax deductible when made and that the benefit should be fully taxable when received. This organization was not so constrained by the political realities that Bob has mentioned.

MR. COWEN: This idea of not taxing the contributions at the time made and taxing benefits was something that was very prevalent back in the late 50's. There were many bills introduced at that time and they were considered but subsequently put aside. I see very little chance, at this time, of any change there. Taxing of benefits would be a deterrent to personal savings because the people who save and put aside some money for their own retirement are going to pay higher taxes because they are going to be in a higher tax bracket for their own benefit. I agree that if the benefits get taxed, it should be the way the private pensions are taxed now.

With respect to Jim's comment on the fixed market basket, I am going to take a page from Don Grubbs and say that if a changing market basket is taken into account, it should not reflect a decrease in the standard of living due to the inability to maintain the previous standard. The elderly should not be forced to take a reduction in their standard of living any more than wage earners. We do not really have a way of measuring whether the change in the market basket is due to that or not so we run into problems. I agree that the market basket has to be updated, but not if the change in the market basket is due to forced reduction in the standard of living.

MR. ROBERT E. KELL: I have a question for Mr. Swenson because he brought up the subject of using an index that is based more on wages adjusted for productivity. Economist Lester Thurow has used the term "Per Capita GNP".... I wonder if you would expand on those two terms. Are they nearly the same thing? Also, referring to the commitment to preserve benefits for people that are on Social Security now, I think that this might imply an ability to purchase a certain amount of goods. Doesn't that definition imply a certain price index?

MR. SWENSON: The benefit adjustment that the National Commission has been considering is the increase in average wages less 1-1/2% per year. The 1-1/2% was mentioned earlier as the assumed long-term real wage growth under the II-B economic assumptions. Basically, this approach would not only desensitize the program to the effect of the economy but it would make the actuarial projections more self-fulfilling prophecies, as far as perhaps the most critical element of the projections. I am not completely familiar with what Dr. Thurow has been discussing, but I read an article in which he, more or less, is giving credence to this particular type of approach.

With respect to the other issue, whether or not there is an implicit promise to continue to enable people to purchase the same market basket and whether or not you are going to be reducing their ability to purchase, I think if you do have some sort of a COLA modification it should be noted that no one is seriously suggesting that the general level of COLA's be reduced dramatically. The cause of the short term problem is the fact that we have been insulating a fairly large segment of the population from supply side shocks (e.g., OPEC price increases) and from the effects of unemployment. You really have to question whether or not it is intergenerationally fair to shelter such a large segment of the population from those adverse consequences. The wage minus 1-1/2% is meant to provide benefits which will hopefully continue to grow at a rate which will permit the elderly to be able to purchase the same amount of goods and services in the future, but also to desensitize the program to this very important issue. With respect to indexation in general, people basically who have had their income indexed by the CPI have really been completely sheltered from the consequences of the adverse economic conditions, which means that a disproportionate share of that burden has been borne by all other workers.

MR. COWEN: With respect to the indexation, I agree that if there are effects on the standard of living to the workers, that the elderly should also have to bear their share of that burden, so that an index of the lesser of a wage index or CPI index I would find no fault with. To have an index which would be the wage index less a flat percentage without any recognition of the CPI to me seems faulty. Hindsight is great and if we look back at the situation in 1977, we see that up until that time, wages had almost always increased faster than the CPI. At that time there was considerable discussion over whether it should be a wage index or a CPI index, and I think Bill Hsiao may give us an idea of why one was chosen over the other. Since 1977 the CPI has been higher than the wage index, and that is the major cause of the problem.

MR. WILLIAM C. HSIAO: I do not want to take credit for having much to do with how the indexing was chosen. I think Bob Myers had much more to do with how the indexing was chosen. My role actually came along in 1975-1976. I pointed out that this probably was not the right way to index and advocated indexing the wage records by the CPI. Bob showed that the American economy is volatile and that if you indexed by prices during this past decade the situation might even be worse and so people like myself would be suggesting relief to protect the elderly Americans and the future retirees. The program should be indexed according to CPI or wages, whichever is lower, so we could have some margin.

Bob Myers and Jim Swenson have mentioned that there is consideration given to increase the retirement age. I realize that this is a very popular proposal, but I have said on previous occasions that this may be largely a mirage. Actuaries and other people frequently cite statistics showing life expectancy has increased, but that does not necessarily imply an extension of ability to work. The National Center for Health Statistics Publications and statistics recently released by Metropolitian Life Insurance Company showed elderly Americans actually have higher incidence rates of chronic disabling diseases. They might live longer but their functional status may have declined due to cardiovascular problems, cancer or orthopedic problems. So, if we want to put our eggs in that one basket, namely, to try to decrease the outlay by postponing the normal retirement age, I think that the responsible actuarial thing to do is to then increase the expected outlays under the disability programs and to see what the net effect is.

Secondly, we seem to be suggesting what America should do. America, being a democracy and being a market economy, lets each individual reveal what he or she would like to do. American workers during the past three decades have revealed that they like to retire earlier; more than 50% of American workers today are retiring before the normal retirement age of 65. A survey conducted by the President's Commission on Pensions showed that most workers would not like to have their normal retirement age increased, and that they are willing to pay higher payroll taxes to pay for the Social Security benefits. My question to the panel is in light of what these people have shown, either by electing retirement before age 65 or in their responses on surveys, how do we reconcile what we are dictating to them as what they ought to do with what they have revealed as their preferences?

MR. SWENSON: First of all, I didn't say any nasty things about price indexation. There are many facets of the price indexation, and now it is the lower of price or wage indexation proposal that warrant serious consideration; I think that there has been a lot of misrepresentation about the effect that would have. Basically, in an economy in which we have real wage gains, the program, as currently constructed, will increase benefits in proportion to the standard of living. Price indexation will just moderate somewhat the increase in those benefits. It will not rise quite as rapidly and it would help to make the programs more affordable in the long term.

Now, having said those nice things about price indexation, I'll return to the retirement age issue. I would agree with Bill that various studies show that perhaps the increase in longevity is not completely consistent with an increase in the ability to work. On the other hand, Alicia Munnell cites studies that increasing longevity does mean increasing work ability. I would like to point out, however, that all those studies indicate that the vast majority of the people in the age 65 to 68 category are able to work. There is a substantial pool of potential workers that are really untapped under the current system. I think we are going to have labor shortages in the future and I think that our long-term strategy should be to tap that source of labor supply when those shortages do indeed occur. Incidentally, it my understanding that the Office of the Actuary does consider the cost of disability in estimating savings if retirement ages were to increase.

Finally, I agree wholeheartedly that people have been expressing their opinions that they would like to retire early; there are times when I feel I am ready myself. However, since Social Security is an intergenerational transfer program, you have to ask at what age can parents realistically expect their children to be willing to support them.

MR. MYERS: One point I would like to make concerns the results of surveys. I am particularly allergic to the public opinion surveys done by the "Beltway Bandits" and the academics because they are usually inadequate.

They either have a question that is impossible to answer, or they have a respondent who does not have sufficient knowledge to do so. I suggest you read an article that I have in the Social Security Bulletin for September, where I analyze a mortality analysis made by a professor of social welfare. I think it was quite faulty and it was largely based on his work with a questionnaire on self-determination of disability. The amazing result comes out that people who retire before age 62 and assert that they have work limiting health conditions experience higher mortality than people who are awarded disability benefits. I think one might draw the conclusion that the Social Security Administration could save a great deal of money if it did not go through the expensive procedure of determining disabilty, and instead just asked everybody who came in and claimed disability benefits: "Are you disabled?" If they say yes, give them the money.

MR. KELLISON: For those of you not seasoned in Washington vernacular, "Beltway Bandits" are a group of "think-tank" or research firms that will study virtually any issue at anytime for just about anyone including, many times, the government.

MR. COWEN: I agree in many aspects with Bill Hsiao about the disability benefits. However, I would go a step further, and say that if we go to an age 68 retirement age, we are going to have to liberalize the eligibility requirements for disability after age 60 or so. There are many people who lose their jobs because they are no longer capable of performing them who do not meet the medical standard for the current disability program. If you raise the retirement age to 68, you are going to have to take care of them. I think the 68 retirement age is going to come, but it is going to come because of the need to keep the people in the labor force in order to provide needed goods and services. This will be when the baby boom people start to retire.

MR. MICHAEL COHEN: In Canada, we also have Social Security problems, but we have got quite a ways to go before we get ourselves into the same kind of mess you have managed to get yourselves into. I could say a lot of things about the differences between Social Security in Canada and in the U.S., but the one thing that struck me is the apparent unanimity against general payroll financing of Social Security. I suggest that you look at this anew. In Canada, we had OAS (Old Age Security) which was financed by an earmarked income tax and we abandoned that quite a while ago. A large portion of our Social Security is financed out of general revenue. Looking at the history of the OASDI in the U.S., it doesn't seem that having a trust fund has in any way been a sobering influence or been able to contain the largesse of Congress so I don't think it has really served its purpose. Of course, in a recessionary period when you have a short-term financing problem, it can have a very negative impact on the economy if you insist on paying for your benefits out of a limited fund. If you are thinking of increasing the revenue, you are adding to a tax on employment just at a time when there is a lot of unemployment and it is increasing. It is totally the wrong thing to do; increasing budgetary deficits is not necessarily a bad thing to do in a recession in a sort of Keynesian way. So overcoming some of the short-term financial effects of the Social Security system through general revenue should be looked at very carefully.

MR. MYERS: I just want to assure the speaker there is not unanimity on this question by any means in the United States. There are many people who believe very strongly that there should be general revenue financing in part of the OASDI system, either directly or indirectly, e.g. by reducing the hospital insurance tax rates and making up the difference with general revenues. There are also proposals currently being made that you should borrow from the general fund during any periods of shortfall, not merely because of economic conditions. So there are many that do believe in this. Now, as to the merits or demerits of it, I won't say at this moment, but I do think that the trust fund approach has had some cost control effect over the years.

MR. SWENSON: On the issue involving Keynes, I have to say that Keynes probably had a good idea, unfortunately, the politicians never let the second edge of the sword be used.

MR. CECIL J. NESBITT: Perhaps because I will not be around for the long range problem to really develop, I do not worry about it quite so much. I see some opportunity aspects of it. For one thing, Jim Swenson's grandchildren will not have to worry about unemployment. They also may be so productive at that time, that they will be able to produce the goods and services needed to actually provide for the aged population. If that is not the case, there is still another opportunity. We can make selective immigration of workers from all over the world, which would then provide the necessary labor for our system. Finally, by that time, we may have a more reasonable level of defense spending, and that again will aid in that long-range problem.

MR. KELLISON: It is interesting that you raised the subject of defense spending as we were talking about general revenue financing. The question always arises, where are the general revenues to come from? As long as the defense budget seems to be sacrosanct, if you throw in Social Security and you throw in interest on the national debt, there is not much left to run the rest of the federal government.

MR. SWENSON: Selective immigration is certainly an opportunity that I agree does exist, however, it should be noted that the basic problem of the baby boom generation is the very large percentage of elderly people that will be in existence. The total population under those projections, incidentally, is forecast to be in the neighborhood of 320-330 million people, and as a consequence, with resources being limited you have to ask the question what is the tolerable limit. I am not sure what it is, frankly. I agree that it is a potential solution, but I do not think it should be looked upon as a way to avoid facing up to the long-term problem.

MR. A. HAEWORTH ROBERTSON: First, I refer you to studies by C. Northcote Parkinson about retirement age. He made extensive studies and found that if you set the retirement age at "R", the age at which people begin to become inefficient is "R-3".

Second, when a person pays Social Security tax, part of that tax goes to finance Medicare. I believe that currently, 20% of the total Social

Security cost is represented by Medicare. I think eventually, according to the projections that the Health Care Financing Administration and SSA turn out, it is estimated that early in the next century, of the total cost of Social Security, including Medicare, about a third, or maybe 40% of it will be represented by Medicare. So, I would ask Jim Swenson and Bob Myers, if they could shed light on why the National Commission would have decided not to study this very important problem, and one answer I would like you not to give me is that the new Advisory Council is going to study it because they did not appoint that commission until 3 weeks ago. In the early stages, a few months ago, what was the basis for the National Commission deciding not to look into Medicare?

MR. SWENSON: There was not unanimity among the Commission members not to look into Medicare. In fact, we would prefer that Medicare had been addressed by the National Commission because I believe that when you consider the amount of resources that are going to be transferred from workers to people who are Social Security beneficiaries, it is an integral part of the total picture. I regret, frankly, the fact that the Trustees reports only show Medicare projections for a 25 year period because really they are avoiding facing up to the realities of the baby boom generation by so doing.

MR. MYERS: I would answer the question by saying that the National Commission in its conclusions will undoubtedly not be unaware of this problem, and will indicate it is there, but will make it clear that it is tackling the problem that is the most immediate one as evidenced by the trust fund balances. I would also say that the answer that Haeworth said that we were not supposed to give is still a part of the situation because although the Advisory Council on Social Security has not been named until just now, it has been known ever since the end of last year, before we even went into action, that there was going to be an Advisory Council and a number of people have recommended that they should look at the Medicare problem.

MR. KELLISON: For the benefit of those of you who have not followed this very closely, there is, by statute a quadrennial Advisory Council. The one that is in existence now has decided to strictly address the Medicare question.

MR. KEITH J. DUBAS: This is for Mr. Cowen. He had mentioned bringing in a needs test for Social Security benefits. There is a needs test for SSI benefits and, to some extent, to receive dependent benefits (i.e. you must have dependents). Are you recommending a needs test for primary amounts? Will there be a test of income in the future?

MR. COWEN: I did not say anything about a needs test. As a matter of fact, I am probably as opposed to it as anyone. What I did say, is that the disability provision would have to be liberalized to bring in an occupational type provision if the retirement age was raised. A person who could not work in their regular job, but could perform other work, should be made eligible for disability benefits. As far as the needs test goes, I am very opposed to that. I grew up in the 30's, and I remember what happened. That is one reason why Social Security came into being.

MR. GARY A. PINES: If we were here one year from today, what significant changes do you think would have been made in Social Security?

MR. KELLISON: That is the $64 question. Instead of giving the views that you would like to see happen, what do you think will happen?

MR. SWENSON: I believe that it really depends upon what people in rooms such as this are likely to do. Let me say first that I expect that the National Commission is going to issue a report that is going to be a reasonable and balanced report that people in this room would generally find acceptable. I do believe that there will probably be some minority point of view. If we can get the press to be as responsible as the Washington Post is today, and if people in this room, and people like the people in this room, write to their Congressmen and say that this is a reasonable set of recommendations, I think we are quite likely to see legislation along those lines. I am not going to precisely indicate what I believe those National Commission recommendations are going to be at this time, however.

MR. KELLISON: Of course, the National Commission's recommendations would still have to get through the U.S. Congress and be signed by the President; that is not automatic by any stretch of the imagination.

MR. COWEN: The Administration today came out and said there will not be tax rate increases. That is going to complicate the situation tremendously because if they try to do it all by cutting benefits the controversy will go back to what it was a couple of years ago when President Reagan first proposed his changes. Something is going to have to be done. The bare minimum is general funds borrowing. My prediction for '83 is general funds borrowing.

MR.MYERS: Just to correct the record I don't think it is quite accurate, Jim, to say that the Administration came out and opposed raising the payroll tax rate. Rather this was part of the Washington rumor mill. If you could show me the statement where President Reagan said this in an open speech, I would accept it, but what you are talking about is what somebody said somebody else said.

MR. COWEN: I acknowledge my mistake.

MR. RALPH J. BRASKETT: When I talk to my two Congressmen, the one that used to represent me and the one that will, they unfortunately seem to reflect the view that Bill Hsiao enunciated which is that delayed retirement is a no-no. They are also fairly sensitive to the unemployment problem in New York which is exacerbated by the early arrival of these not-so-select workers from the rest of the world called the illegal aliens: We have about 1 million of them in the New York area, and the government seems to be totally unable to do anything about it. So my real question to the panel and to some extent to Bob Myers, is regardless of what is appropriate and sensible to this small number of people in this room, is it politically feasible that anything be gotten through the Congress along the lines of advancing the retirement age or anything other than this minimal band-aid approach which Jim Cowen says we are going to have?

MR. MYERS: I think that something can be done and that, by and large over the years, Congress has been responsible. Certainly when the time for action comes with regard to raising the retirement age it should be noted there are many Congressmen who have come out for this on both sides of the aisle. So that there is a definite possibility of its being enacted. Whether or not it should be, or whether or not it will be, I won't say, but it certainly is not a dead issue.

MR. COWEN: Historically, major items take a long conditioning period, but they eventually get enacted. I first started making estimates for Medicare back about 1957 and '58, and I am sure Bob Myers started making estimates for Medicare in the '40's, but they were not enacted until 1965, which gives you some idea of the time frames that are involved. Things that need to get done, do get done. It may take a while, but I think they generally do get done as recognition becomes more prevalent. That is done by discussions such as this.

MR. FRANCISCO BAYO: I was somewhat surprised that there was no stronger disagreement among the panelists regarding the economic assumptions, but I guess that I should have taken into account that there was not a single professional economist among you. To tell you the truth, we in the Office of the Actuary, who develop those assumptions, have more disagreement than you have shown today. Maybe we are becoming better economists after working several years on this subject. As we usually do, we publish our assumptions and methodology, and we plan to continue to do so. I already have asked the program committee to include in this session in Chicago and Vancouver a discussion of the economic assumptions of the 1983 Trustees Report, including how we developed it. In a couple of months we expect to publish an actuarial analysis describing how we arrived at those assumptions. I hope that this will be an opportunity for you not so much to learn what we do, but to let us have your opinions. Our experience shows that this is more an art than a science and we would like to know what kind of art you are practicing and at the same time what kind of analysis you have done that will help us develop better assumptions. I will ask Mr. Myers as soon as he has a chance from his Commission to let us know his analysis, his feelings and his views about the growth in fringe benefits to help us in future predictions.

MR. COWEN: Frank, I don't know why you expected more disagreement with your assumptions from this panel, all of us have worked with you too long and we know the quality of the work done at the Social Security Office of the Actuary.

MR. MYERS: Jim Cowen just took the words out of my mouth. I think on economic assumptions one can differ, but I think that part of your professional responsibility is that if a job is being well handled you do not nitpick here and there but you say well I might have done it a little differently, but I will support what they have done. As to being economists, I think a lot of actuaries really have a considerable amount of economics training. Personally, I had enough economics as an undergraduate to have gotten a Bachelor's degree in it. The so called professional economists think that you get a Ph.D and you retire from life with that.

MR. ROBERT J. RANDALL SR.: The panel has urged that the public be informed in a responsible way. President Reagan a short time ago did make the statement that the problems of Social Security have been allowed to accumulate over the years and nobody has done anything about them. I would like to ask the panel how responsible they thought that statement was.

MR. SWENSON: I'm not going to respond precisely to that statement but in 1977 Congress was very courageous and very responsible in the actions which they took at that point of time to decouple the program; many of the things that were done then were appropriate steps. They relied very heavily upon a payroll tax rate increase which you could question whether or not it was balanced, but at least in addressing the decoupling issue they really went about it in a very fine fashion. So I would say that Congress has been responsible in large part. In 1977, as you recall, Congress and the Administration almost broke their wrists slapping themselves on the back for the actions they took and proclaimed that they had solved the problems well into the 21st century. Actually, they would have, had we had any kind of reasonable economic conditions during the past several years. As I mentioned in my prepared remarks the real problem that the program now faces is that very substantial real wage losses have occurred during the period from 1979 to 1981. In looking at the solutions to hopefully prohibit that type of problem from reemerging I think that Congress will, even though it is going to be a difficult political fight, at least step up to that particular issue.

MR. KELLISON: I think I would try to answer your direct question, Bob by saying that between now and July, 1983 we are likely to hear some more political rhetoric of one sort of another from a lot of other people before this issue is totally resolved.

MR. COWEN: Historically, Social Security has always been watched very closely. There have always been a lot of things done and when things became necessary they have always been done. There are always going to be problems cropping up that were not anticipated; there is no way to foresee them and those will be troublesome. To say that the problem has been one of lack of facing up to issues escapes me.

MR. MARTIN J. ZIGLER: I would like to ask any of the panelists if they could speculate on whether legislation prohibiting withdrawal from Social Security by hospitals or other non-profit organizations is imminent and, if so, how that will likely apply to those that have already issued their letters of intent to withdraw.

MR. MYERS: This has been a matter that has been discussed before the National Commission. There has been quite a lot of interest in it. There are two approaches. One is that hospitals who have withdrawn in the past would not be brought in, but there could conceivably and legally be an estoppel of future withdrawals. Another solution that the National Commission is studying would do a much more thorough job and merely mandate compulsory coverage of all non-profit organizations, period, and that would solve that problem very neatly.

MR. SWENSON: There is a strong, general agreement on both sides of the aisle that the opting out issue is one that needs to be addressed so I do believe that Congress will address that issue in the legislation that will be enacted prior to July, 1983. Just what form it will take I am not sure, but I do believe that that is an issue that will be addressed. As a matter of fact, I noted that in the spring programs that this is the subject of a panel discussion; I think it is highly likely it may be a dead issue by that point.