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ACTUARIES AND SOCIAL SECURITY

by K. Arne Eide

"Social Security: Perspectives for Reform" contains much that should be of interest to the actuary. However, one cannot obtain a clear understanding of the book by merely reading the authors' statements of objectives as cited in the review in the *Transactions*, by reading the review itself or the authors' letter to *The Actuary*. If one cannot find time to read the entire book, a reasonably accurate picture may be obtained through reading the summary at the end of each chapter.

There are many facets of the Pechman, Aaron and Taussig book that might provoke discussion. In commenting on some points that have arisen in the reviews and the authors' letter, I do so with the reservation that my few remarks can by no means cover all the basic issues. What might be written to *The Actuary* simply is not comprehensive enough to illumine to great depth a subject as complex as Social Security.

The authors, along with a growing number of others interested in the broad field of public welfare, express dissatisfaction with present welfare programs. Social assistance programs have grown over the years both in scope and magnitude of outlay without seemingly achieving desired objectives. Recently advocated programs encompassed by the Administration's proposal for welfare reform and the report of the Heineman Committee would attempt to provide benefits to those in poverty or near poverty levels, whether working or not working, in an attempt to raise their income and standard of living. Social Security (OASDI primarily) would, as heretofore, continue to provide basic economic support for most workers,

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THE RETIREMENT TEST UNDER SOCIAL SECURITY

by Harry E. Blagden

When the Social Security Act was first passed in 1935, it was during a depression and the psychology engendered thereby led to the provision that earning as little as $15 in covered employment *in any calendar month disqualified an* otherwise eligible recipient from receipt of Social Security old age benefits.

There is, of course, a need for some kind of retirement test because there seems little sense in paying *tax free* Social Security benefits to a person working full time after age 65 and earning as much as $50,000 a year.

Unfortunately, the philosophy which led to the kind of retirement test initially provided has, with some modifications, persisted, with significant changes in amounts involved and with the desirable change that earnings in any employment (not only covered employment) are taken into account.

Currently one can earn as much as $1,680 in a calendar year with no loss of benefits. For each dollar of the next $1,200 in excess of $1,680, fifty cents is lost in Social Security benefits. For each dollar earned (and subject to tax) in excess of $2,880 a dollar of tax free Social Security benefits is lost.

There is, however, an important exception to this — a loophole. An employee can earn as much as $140 in any calendar month without losing Social Security benefits for that month regardless of how much he earned in the calendar year in which such calendar month occurs. Furthermore, if a self employed person can demonstrate successfully that for any calendar month he does not "render substantial services," he is entitled to receive Social Security benefits for such calendar month re-

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FURTHER COMMENTS ON SOCIAL SECURITY

by Robert J. Myers

The December 1969 issue of *The Actuary* carries comments by Pechman, Aaron, and Taussig on the review of their Brookings Institution report "Social Security: Perspectives for Reform" made by Ray Peterson and me. I should like to make a rebuttal of some new points raised by the authors. I believe that the detailed comments that I made in my *TSA* review are still pertinent and accurate and have not been answered by the authors.

I disagree most thoroughly with the authors' contention that "the widespread habit of regarding social security as a form of insurance is misleading and harmful." The difficulty on the part of the authors is that they equate "insurance" only with individual insurance and that they do not have knowledge of the differences in concept and approach of group insurance and group pension plans as against individual insurance. In fact, I believe that it is fair to say that group insurance and pensions have more in common with OASDI (social insurance) than they do with individual insurance. The authors apparently never studied the financing principles of private pension plans.

I am convinced that the American public approves the insurance concept in the Social Security program and that this viewpoint is beneficial for the program and the nation. People want to feel that they and their employers are providing that part of their economic security which comes through this channel and that the Government has only the function of setting up the administrative machinery necessary therefor. People do not want a basis for the Social Security program that implies

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Retirement Test

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gardless of how much he earns in self employment or as an employee during the same calendar year.

Just what constitutes "substantial services" is a little subjective. For ease in reference such a month for an employee or self employed is referred to as a "month of inactivity." Because Social Security benefits are tax free, "months of inactivity" are very valuable, especially to persons who have a large unearned income after age 65 as in the case with a highly paid employee retired under a private pension plan.

The results of the present system are bizarre. For example, take a retired executive who attained age 65 in January 1970 having been covered under Social Security since 1951 for the maximum amount of taxable wages each year. Assume such retired employee has a wife born in the same month as he and assume also that if he has no earned income in 1970 his "taxable income" for federal income tax purposes will be exactly $24,000.

If he renders substantial services in each of the 12 months in 1970 and as a result earns $5,700 as a self employed individual, he has $216 *less* spending money than he would have had if he had stayed home and twiddled his thumbs. If he took a three-month vacation and earned $5,700 in the other nine months, he does a little better.

He then has increased his spending money by $639, but if he had been satisfied to earn just $1,680 during the year he would have increased his spending money by $959.

The above is, of course, an extreme example, but endless additional examples could be given showing other ridiculous results.

The reasons for the capricious results of the present retirement test are fairly obvious, viz:

(1) Social Security benefits are tax free;

(2) when tax free benefits are reduced at any time on a dollar for dollar basis because of taxable earned income, ridiculous results are inevitable;

(3) the "month of inactivity" concept produces anomalous results (and encourages cheating).

What is the solution? Leaving out political and legal considerations it is fairly simple.

First, Social Security benefits should be taxable like any private pension plan benefit. The Social Security taxes paid by the recipient should be considered as employee contributions—as are private retirement plan benefits. To compensate for *now* making Social Security benefits taxable, there should be a Retirement Income Credit established for people who are in essence retired individuals. The Retirement Income Credit now a part of the Internal Revenue Code would be discontinued.

The amount of the Retirement Income Credit should be large enough that a man retiring in a calendar year for the maximum benefit payable during such year with a wife who qualifies for maximum wife's benefit and both of whom receive 12 months benefits during such year will still in essence receive Social Security benefits tax free if his earned income does not exceed $1,680. Persons with smaller benefits will receive the same Retirement Income Credit.

As earned income exceeds $1,680 in a calendar year, the Retirement Income Credit should be reduced and ultimately eliminated. The formula reducing the R. I. C. should be such that the net effect upon spending money of "months of inactivity" should be reduced. This will make "cheating" less profitable.

A dollar of earned income should never result in the loss of a dollar of Social Security benefits. Perhaps the present fifty cent rule should apply to everything in excess of $1,680 although the writer prefers a forty cent deduction for each dollar of earned income.

The writer for political reasons would preserve the present $1,680 annual amount of earnings with no loss of benefits but would not increase it. Similarly the writer would continue the present "month of inactivity" rule. First because it is probably not possible to turn the clock back; and, secondly, because with an appropriate formula for reduction of R. I. C. which takes account of the number of months of inactivity in a calendar year, it goes a long way toward reducing their financial effect.

The writer has devised a formula which achieves the results outlined in the previous paragraphs and hopes that some publication will make it available for fairly general distribution. Suffice it to say that for the specific retir person referred to in the early paragraphs of this note, as a result of his $5,700 of self employment earnings, he would have, after taxes and after some loss of Social Security benefits, $1,933 of *added* spending money and this amount would not be changed even if he had six months of inactivity.

The problem of the Retirement Test is an urgent one and in the writer's opinion calls for a departure from the principles used in the past. With hearings in Washington imminent, the writer is sending details of his proposal to people in Washington who can perhaps do something about it. □

Actuarial Recruiting

Considerable effort on the part of the Public Relations Committee and on the part of individual actuaries is properly devoted to obtaining new recruits for the profession. It was suggested that the Society might pay more attention to students in high school so that they could shape their college curriculu with an actuarial career in mind.

To this end the Public Relations Committee has now published an attractive booklet on an actuarial career. Copies have been sent to each of some 16,000 high school guidance counselors scattered throughout the United States and Canada who are members of the American School Counselor Association.

Single copies of the booklet, which is entitled *So You're Good at Math,* may be obtained from the Chicago office by any member of the Society. Additional copies may be obtained by Society members at a cost of 10 cents per copy. Schools and colleges may obtain a supply without charge.

The Committee would urge that their efforts to stimulate interest in an actuarial career be supplemented locally by individual members getting in touch with the counselors in the local high schools. Each member is also encouraged to think of other uses for the new career booklet. For example, the booklet is not limited to high school student but may be used with college student as well. It is of a size which can easily be mailed for 6 cents in a stamped envelope. □