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Book Review

Social Security: how sound, how desirable?

by Robert J. Myers

Social Security: What Every Taxpayer Should Know, by A. Haeworth Robertson. Published by Retirement Policy Institute, Washington D.C., Publications Division, Charlotte, NC, 1992, 704-553-9193, pp. xxiv, 321, \$40.

This book on Social Security — using the term to include both Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare (Hospital Insurance, HI, and Supplementary Medical Insurance, SMI) — is largely very objective and educational. However, the average reader may not note the thread of subjectivity that runs through it. Robertson appropriately dedicates the book to “the actuaries of the Social Security Administration and the Health Care Financing Administration who endeavor tirelessly to provide the financial information needed to ensure that Americans will be able to keep the financial promises that one generation imposes upon another.”

Robertson was impelled to write this book because he is convinced that the public is badly misinformed about the underlying nature of Social Security and, if they did understand it, they would demand significant, sweeping changes. This is a very subjective matter. I am convinced that most people are satisfied with the system. They need only slightly more education about it and do not want all the thoughtful analytical presentations in this book.

The fact is that people are content, and rightly so, with only general knowledge about the many complex elements of our modern social and economic lives. For example, how many people know (or wish or need to know) what makes a television set work. What they are interested in is how to operate it, expecting that it will function faithfully when needed. This also applies to the Social Security program.

This book, however, will be interesting, informative, and even essential reading for students of Social Security and the general economy (as all actuaries should be).

The book was written on the basis of the situation in early 1990, including the actuarial estimates in the 1990 Trustees Reports, though it was not published until May 1992. By then, two additional Trustees Reports had been issued. The legislated program changes since early 1990 are summarized in an appendix. As it turns out, the later actuarial estimates show somewhat less favorable pictures, and so Robertson’s pessimistic conclusions about the status of the Social Security program tend to be reinforced.

Incidentally, I found that the book contains several factual errors and omissions, although I recognize that, for such complicated programs, all details cannot be described. Yet, within such confines, precision and accuracy could have been better achieved. Anyone interested in a listing of 43 such items can contact me at my 1992 *Directory* address.

Chapters 2 to 7 give basic information about the benefit and financing provisions of the OASDI, HI, and SMI programs. They also give past experience and future cost projections in percentages of taxable payroll, according to the intermediate estimates. The author also effectively describes funding practices, including the concepts of “actuarial deficits” and “accrued liabilities” and their significance. He makes the important point that, over the long range, both OASDI and HI are not adequately financed under present provisions and that taxpayers should be made aware of this, so something can be done. However, he does not point out that most of this deficiency is due to HI, which I believe may not be in existence after a decade or two, being replaced by some sort of national health care plan.

The next 14 interesting chapters comment on topics such as the appropriateness of the earnings test, the proper minimum retirement age, whether people get their money’s worth, the desirability of automatic adjustment of benefits, and the validity of the assumptions used in the actuarial estimates. The author tries to present all sides of the questions and succeeds reasonably well.

The most important part of the book may be the last three chapters, which deal with the future outlook for the several programs. Robertson believes that, although higher payroll taxes may be required, the public will object and that more general revenues will be used. He believes, as I do, that part of the problem can, and should, be solved by raising the minimum retirement age. He also fears that, with continuing inflation (especially if at a high level), the portion of the economic security needs met by the private sector will decrease, shifting to governmental programs. Also, he recognizes that Medicare may be changed beyond recognition in the next decade. Thus, it may not be financed on a payroll-tax social-insurance basis, and the deficit problem under such a basis will be shifted to other, perhaps more difficult-to-achieve, bases.

Robertson’s conclusions are somewhat surprising in view of his generally objective approach throughout the book. He believes, “There is no reason for this country to continue with a social insurance system that is so controversial and unpopular and whose financial status must constantly be debated.” I do not agree that the program is controversial and unpopular, and I believe that debate about its financing is healthy.

Milton Friedman, a Nobel laureate economist, refers to the book as “an extraordinary accomplishment.” He comments, “As Mr. Robertson says, it needs at the very least a ‘massive overhaul,’ and preferably, despite his statement to the contrary, complete termination.” Robertson says that Social Security is not “understood” by the citizenry, is not perceived of as “fair and reasonable” by the majority, and “hinders the attainment of a healthy and productive national economy.” In saying this, he has a responsibility to give details on how he would restructure OASDI and Medicare, but has not done so.

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