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The future ain't what it used to be

by A. Haeworth Robertson



"The future ain't what it used to be" is the only unequivocal statement that can be made about the outlook for Social Security, including Medicare. Significant change lies ahead for three good reasons:

1) Unsustainable costs — The vote-hungry politicians have promised more benefits to today's voters than tomorrow's taxpayers will be willing and able to finance. According to the latest Trustees Reports, the cost of the Old-Age, Survivors, Disability, and Hospital Insurance programs is projected to rise from its current level of 15% of covered, taxable payroll to as much as 43% by mid-21st century, based on the so-called "high-cost" projections. In addition, the cost of Supplementary Medical Insurance is projected to rise from its current level of 2% to at least 9% of payroll.

2) Public understanding — In an effort to gain taxpayer acceptance, the nature of Social Security has been misrepresented ever since its adoption 60 years ago. In the early days, the public was told that it was "buying and paying for its own benefits" and that there were "no handouts." Currently, taxpayers are told that a trillion-dollar trust fund is being accumulated to help pay for the baby boomers' retirement. This is false. The system is not, in reality, advance funded at all. The

government immediately spends any Social Security taxes not required for current benefits, and then, by issuing Treasury bonds, states its intention to replace this money, with interest, by collecting general revenue in the future. The public is not as docile and as trusting of the government as it once was. When it finds out how Social Security really works, it will surely demand a change.

3) Inappropriate design — Social Security was designed to meet specified financial needs of individuals in the context of a particular social, economic, and demographic environment. It is obvious that this environment has changed during the past 60 years since Social Security was enacted. It is also obvious that this environment will continue to change during the next 60 years. A striking example of the change is the decline in the ratio of active Social Security taxpayers to beneficiaries, from 16 to 1 in 1950 to 3.1 to 1 in 1990, and a projected ratio of less than 2 to 1 in the year 2030.

Probable specific changes

The exact kind of change needed in Social Security will depend on public demand and political expediency, which may or may not be rational. Based on current trends, the following changes seem likely:

- Higher retirement ages for anyone born after 1945. Age 70 will eventually be the norm. More people will work part-time at advanced ages, with fewer abrupt and "complete retirements." Accordingly, the nature of work performed by older persons will change.
- Social Security benefits will continue to decrease, particularly for the wealthier citizens who have lived prudently and planned for their retirement. More benefits will be taxed away; Cost-of-Living Adjustments (COLAs) will be retarded; various

earnings and means tests will be applied. Medicare benefits will be reduced first, then cash benefits. Rationing of medical services will become more prevalent and will be more overt.

- As the myth that people are buying their own benefits is shattered and Social Security is recognized as a self-care system that is not advance funded, taxpayers will not tolerate the ever-rising payroll taxes. An increasing portion of Social Security will be financed by general revenues, sales taxes, or value-added taxes.

Alternative future

Even though a variety of future events — some of which we cannot control — will influence the Social Security of the future, it would be a mistake to be fatalistic. One of the reasons to forecast the future is to enable its change. It is still up to us to shape Social Security so it is appropriate for tomorrow's environment and so it provides a system of benefits consistent with our needs and our ability to pay for them. The outlook for Social Security, then, is whatever we desire and have the courage to achieve.

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