

**DISCUSSION OF PAPERS PRESENTED AT  
THE SPRING MEETINGS**

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**THE 1950 AMENDMENTS TO THE SOCIAL SECURITY ACT**

**ROBERT J. MYERS**

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**W. RULON WILLIAMSON:**

Mr. Myers's last paper, in an impressively long series, is no exception to his others in its broad scope and its careful treatment. The Amendments themselves represent one of the important bench marks on the downward slope into the "welfare state."

That legislation has added Medical Care and Permanent Total Disability; transfers more of the local Federally-unsubsidized relief over to the Federally subsidized categorical assistances; provides another upward thrust next year following the 1½-year waiting period and perpetuates and magnifies the former capriciousness. It invades the church, the school, the home, the farm, the ranks of the self-employed.

I want to limit my discussion today to the "level premium consideration" of Mr. Myers's first full paragraph on page 24. (On page 20 he says: "The cost is generally referred to as a percentage of covered payroll. This, it is believed, is the best measure of the financial cost of the program. Dollar figures by themselves are misleading because extension of coverage increases not only the outgo but also the income of the system." I merely suggest thoughtful analysis of this "flight from the dollar.")

*1. Ordinary*

The origin of the level premium idea is the Ordinary Life business, with over two centuries of development in Great Britain and the United States. Dr. Greville's United States Life Tables and Actuarial Tables, 1939-41, furnish a basic reference source, and a stylized "different" net premium approach to the ancient comparison.

On pages 4, 6 and 24 are graphic displays for white males, showing by age the annual rates of mortality, the number of survivors and the number of deaths. This last graph shows a huge hump at the right-hand side, with its peak at age 75 (when, by census family reports, over half are still married).

The pure premiums per \$1,000 of insurance—annual basis, 2% interest, age 30—run crudely like this:

Form of Policy	Premium	Ratio to One Year Term
One Year Term . . . . .	\$ 3	1
Term to 65 . . . . .	9	3
Ordinary Life . . . . .	18	6
Life—Premiums Payable to 65 . . . . .	21	7
Endowment at 65 . . . . .	24	8
Term to 65 plus \$10 Mo. at 65 . . . . .	27	9

Here, in this simplified nonexpense situation, the level premium for permanent protection (more permanence than in PTD) seems to run from 3 to 9 times the one year term premium. The variables are (a) the prospective period of protection, (b) the endowment or monthly income inclusion, (c) the period of level premium payment.

Page 34 shows that a cohort of 90,000 at age 30 entrance will lose only 10,000 or  $\frac{1}{9}$  by death before age 50, somewhat more than 30,000, or  $\frac{1}{3}$ , before age 65. By age 80—a 50-year period—over 75% are gone, and 5 years later only 10% of the cohort are left.

In this streamlined academic illustration using pure premiums, and leaving out essential expense charges, the young family man, considering his insurance needs while his children are small, as they complete their education, when he and his wife age, and their *living* needs then, adopts the voluntary assumption of much higher level premiums to meet personal responsibilities, both immediate and deferred.

The page 6 chart and the page 34 table show that in 40 years nearly half of the exposure will be gone, in 50 years  $\frac{3}{4}$  of it. The lapse rates of the Richardson-Hartwell paper suggest less than that volume of survival of protection, while in the level-premium provision reserves will largely reduce the net amount at risk. Here is not alone personal self-sufficiency, but corporate responsibility—and the effective continuity of a century of operation for a considerable number of American life insurance companies.

## 2. OASI

Twice now, in OASI, the new starts have taken men near retirement and have largely increased their benefits, leaving the current percentage personal tax where it was. After this second increase of 1950, the age beneficiaries as a class, including the wives and widows, cannot have paid a nickel of tax for a dollar of prospective benefit. Table 10, page 25 of Mr. Myers's paper, shows that 50 years later, in the year 2000, benefits under

the low-cost, the intermediate and the high cost estimates reach 8, 11 and 13 times the 1950 level. Since benefits are to double in 1951, shifting the base to that, the 2000 load is then 4, 5 or 6 times the 1951 level. (Of course there is no consideration here of more doublings of benefits later.)

The 1950 amendments set future tax increase goals in 1954, 1960, 1965 and 1970. The record after the 1939 amendments shows no tax increase till 1950, and other tax requirements seem to be as high now in the preparedness situation as a decade ago. Counting on tax increases as effective, however, the trust fund reaches 20 times a year's requirements in 2000 under the low estimate, will be completely wiped out by then under the high cost assumptions. The intermediate trust fund seems to be the average of "boom" and "bust."

Fifty years hence, when the cohort in Ordinary has been cut to a quarter of its starting size, without lapse, and to much less under lapse conditions, with reserves largely caring for future responsibilities, the OASI benefit load is still lustily growing and, instead of a complete extinction of the exposure in a century, it appears that the first 50 years have been a very small part of the story. While the level premium technique here uses interest discount to reduce costs of future outgo, there is little probability that such earnings are at all in the cards. Great Britain, as Mr. Gelles once suggested, similarly set theoretic contribution rates lower than they were required to be in the absence of interest earnings.

The quotation from the Ways and Means Committee, page 26-27 of the paper, "It will be many, many years before any deficit or excess in the ultimate rate will be determined and even at that time it will probably be of only a small amount," suggests a rather high credence to these tabular displays. Mr. Altmeyer, in working for increased tax rates, earlier, had spoken very definitely of billions of *deficiency* in the trust fund. Now, after doubling the dollar strain on the reserve by doubling benefits, deficits are a long way off—and if they arrive, they "will be small."

### 3. *Costs and Guesswork*

In this strange world of relativity, where one man's deficit seems to be another man's surplus, it would be well to look at a few items that are involved in this forecasting business. Mr. Shudde and Mr. Immerwahr looked them over in Actuarial Study Number 21. Many have behaved erratically—though we can sometimes make out a cyclical behavior in human affairs. Many forecasts take off tangentially from the point on the curve that seems to have been reached at the time. To put it differently, a snap-shot of motion suggests what is to happen later. But it requires

a continuing movie to show such subsequent action with any completeness. Sometimes we seem to be building mastodons from a fraction of one bone.

But even the next 50 years, set forth alternatively in the high-cost and low-cost illustrations, represent but a small fraction of the eternity entering his "level-premium" assumptions. It would be well to look back—in one case to a point nearly a century ago, in the other cases but a short distance—to consider certain pertinent experience.

1. *The Stable Dollar.* Dun and Bradstreet recently called our attention to the situation over some thirty years between the Civil War and the Spanish-American War. With the progress of technology and without the governmental interventions of the twentieth century, that period showed a steady uptrend in the purchasing value of the dollar. The advantages of thrift in that interval seemed very real. Should we lose our faith in the magic wand, we might again advance to such shrewd wisdom.

2. *Population Forecasts.* In the National Resources Committee Report of 1938, page 24, the Sub-committee on Population Problems quoted hypotheses A to G as to the future trends of population in the United States. The figures for 1950 then ranged from 136 million to 144 million, largely on the authority of the Scripps Foundation for Population Research. In 1947 the Bureau of the Census published a later try, again under the direction of Dr. Whelpton of Scripps. This time the estimates for 1950 had advanced to 146 to 149 million. The figure released by the Bureau of the Census as of April 1, 1950 was 151 million, showing an average gain of 11 million or about 8% over the forecasts of twelve years before, and an average gain of 3 million or 2% over the later one.

3. *Age Distribution.* Although the total figures of the United States 1950 Census have been published, and stand, the release of age groupings to the papers and the Federal Security Agency are now felt to have been premature, and they are withholding final release of age data till December when the complete tabulations will be shown. The earlier releases on the basis of a sample of .1% showed the recent Census-Whelpton estimate but 2% off, but the age group under 5 had been underestimated by 20% to 30%, and that over 65 by 8%.

4. *Paternalism.* The Social Security System not only works with random events. It is more and more recognized as an unsettling force on human veracity as to age reporting. I have no doubt that the whole "let George do it" mood that goes with welfare-statism is tampering seriously with such items as our life tables, and helping to make more extreme the pendulum swings of yearly birth-rate changes. We watch our working tools grow duller and less dependable.

5. *Time of Analysis.* Mr. Myers quotes level premium costs for the 1939 amendments, comparing the way they looked in 1939 and the way they looked in 1950. As of the first date, they were 5% and 7%, as of the latter, 11 years later, 3½% and 5½%.

6. *Annuities.* The dramatic rise of the individual deferred annuity rates in the last 25 years is an interesting contrast to the last paragraph, since the annuity trend is *up*.

7. *Interest.* Some insurance companies have seen a reduction of 40% in the rate of interest since 1929.

8. *Mortality.* The current Dublin-Spiegelman paper in Table 2 shows industrial mortality improvement over about 25 years of nearly 50%, from 80% at the lowest ages down to over 25% at ages 65-75.

These eight items suggest a few of the limitations on forecasting. The recent past should make us modest as to minimizing—or being silent as to—the limitations inherent in these sensitive factors in dealing with the Federal intervention in personal problems. Such tangential approaches as the perpetual maintenance of high employment, even while increasing the inducements to lay off, carry the seeds of later difficulty.

We do not accurately know the present situation in the Federal community, nor have we been sure of how it has been in the past. There were errors and bias in the census before Social Security, covered by Mr. Myers in a prize paper in the *Transactions*. But with doubts as to trends, and with more interferences causing more doubts, projections for fifty years are dubious, and beyond that point much more dubious.

#### 4. *Undue Reassurance*

I believe it undesirable that credulous Congressmen and bureaucrats should be too much reassured by apparent foreknowledge. They seem to have been lulled by the intermediate estimate spaced between bankruptcy and prosperity, so that they have doubled benefits towards which those persons within gunshot range of retirement make but a token contribution. Here are some of the evidences of the ensuing attitudes that show undue reassurance.

1. *Wilbur Cohen.* When benefits are doubled, then the weight of any trust fund is relatively cut in two. Only a few years ago the Commissioner of the Social Security Administration was lamenting many billions of deficiency in the reserve. Today Mr. Cohen says (*American Economic Security*, July-August, 1951), "Fortunately, changes along this line can be made now without changing the contributions of the program, or impairing the actuarial soundness of the scheme." The changes he recommends might increase outlay from 5% to 10%. I judge he wants to repeat the process yearly.

2. *Robert Ball*. Recently, Assistant Director Ball of the OASI told me that the tax base should advance from \$300 to \$400 or \$500 a month, with corresponding benefit increases. Sumner Slichter told Congressional Committees he saw no reason for any maximum limit. Mr. Ball said that when people paid more taxes, they should of course get more out of it. Under the new start, it is possible to get 99½% of the benefits free above the 1½ years of contribution. I don't think Mr. Ball wanted a higher free percentage, but rather he seemed ready to settle for some yearly increment of 1% or 2%, a maximum increase of 50% or 100% for 30 or 40 times as long a period of contribution.

3. *Oscar Ewing*. Different bureaucrats carry the same ball at different times and sometimes different balls. Oscar Ewing, saying little generally on the details of OASI, now urges hospitalization for the aged of 65 and over (already included in Assistance) within OASI, where he assures us there is plenty of provision to carry it.

4. *Senator Myers*. This Pennsylvania Senator told his constituents, in recommending various liberalizations, that the system was already over-financed.

5. *Eligibility*. I have discussed with Mr. Myers the use of "eligibility" for men who are past 65, are "insured," but have not yet stopped covered employment. I should use "eligible" only when the three, instead of just the first two, requirements were satisfied. Its use today seems a contributing factor to the discontent of men whom tax-man Lasser tells, as they insist the system now keeps them from working, "You paid for it—you want to get your money's worth." The Mayor of St. Petersburg and Senator Smathers of Florida have protested, and Senator Smathers is offering an amendment to permit earning \$100 rather than \$50 a month while continuing to draw retirement benefits. We seem to be on our way to "winking at disqualifying work," or paying in all cases at 65. The Administration-Life-Insurance decision that renewal commissions shall not bar from benefits illustrates the blurry boundary here. A small class is being considered—it carries strong precedent value.

6. *Terminology*. Social Security and Social Insurance can mean hospitalization, group life, public assistance, and so on. OASI has been subordinate to Public Assistance both in number of beneficiaries and in volume of payments. OASI has claimed the glory, Public Assistance has paid the benefits. Both spread the tax payment widely. Diffusion has been the basic philosophy of these programs from Bismarck onward. This use of terminology to avoid nailing down where the money comes from, of shifting attention around the lot, has met the primary objective of such Government intervention—the steady widening of the front.

7. *More Benefits on All Fronts.* The Social Security Administration started working to advance both Assistance and OASI by \$5 a month, about as soon as the ink was dry on the new amendments. The Senate has compromised by an increase of \$3 a month on Old Age Assistance, no increase in OASI, and a provision for openness in the records under Assistance—one bad and one good provision. Both are likely to “cool their heels” within the Ways and Means Committee. The Administration continues to work to add PTD under OASI—permitting the prized competition between programs called Insurance and Assistance, both Federally arranged and financed. The Social Security Administration in the August 1951 *Social Security Bulletin* shows the score-sheet with the two Old Age Benefits neck-and-neck with each other. Though the two new assistance lines, PTD and Medical Care, are not yet operating in all states, just give them time! The SSA perhaps wisely has the slogan: “Watch us grow.”

### 5. *Contrasts*

The President's speech two weeks ago at the laying of the cornerstone of the occupied building for the General Accounting Office said that Americans had “never had it so good” and that real wages were at a high point. This contrasts sharply with the long-standing sort of report represented by the pamphlet recently released from the Joint Committee on the Economic Report on “Making Ends Meet on less than \$2000 a year.” The argument for Federal Administration that men can't care for themselves conflicts with the claim of well-paid citizens.

The man who buys Ordinary Life or Retirement Income 70, uses the level premium method to face his costs. The OASI system *talks* about level premium and sells dollars of benefit at a half cent up to a dime.

From the brief presented to the Supreme Court to secure the ruling of constitutionality onward to today, the basic strategy has used the “hard up” for their emotional appeal, and has proffered heavy subsidies to the top-flight citizen. He is deluged with propaganda on his need for regimentation. He is reassured that this “dollar for a nickel” is just a new guise of personal self-sufficiency. The edition of the Holy Writ that I've been reading lately says: “And thou shalt take no bribe, for the bribe blindeth the wise and perverteth the words of the righteous.”

#### ABRAHAM M. NIESSEN:

The 1950 amendments to the Social Security Act are the result of intensive studies and legislative efforts extending over a period of several years. There seems hardly to be a person who has more first-hand knowledge of these amendments than Mr. Myers, the author of the paper pres-

ently discussed. During what might be termed the formative years of the latest social security program, Mr. Myers was the chief actuary of the Social Security Administration and also the actuarial consultant to Congressional committees on whose action the fate of the amendments so much depended. It is natural, therefore, that the members of the actuarial profession who are interested in social security will greatly appreciate Mr. Myers's paper, which is authoritative, informative and, at the same time, concise.

Considered as a whole, the 1950 amendments introduced a series of major improvements which meet with more or less general approval. One of the most important results, which Mr. Myers carefully points out, is that the overhauled insurance system may be expected in the long run to greatly limit the scope of the assistance programs and reduce them to the role of marginal not primary schemes. It remains to be seen how the state disability assistance programs will work out and whether they will eliminate the pressure for a Federal disability insurance program. It will also be interesting to watch the progress of the amended OASI tax schedule. Mr. Myers hints that, should the actual experience prove favorable from the point of view of costs, Congress may decide to freeze the tax rate for a while or even reduce it. In the past, we have witnessed tax freezes which were not indicated by actuarial considerations. Perhaps the principle of a self-supporting program implicitly embodied in the new Social Security Act will prevent actuarially unwarranted tax freezes in the future.

Mr. Myers guides the reader through the interesting history of social security legislation in the United States. The 1935 Act provided essentially for retirement annuities bearing a reasonable relation to total contributions (employees' and employers') and for a guarantee of return of the employees' own contributions. This principle, with certain important modifications, later appeared in the Railroad Retirement Act of 1937. The social security system was to be self-supporting and anticipated the gradual accumulation of large reserves at least by 1935 standards.

This more or less private insurance approach was very soon scrapped in favor of another plan which retained only a semblance of individual equity, and which was not committed to large reserves. Such were the effects of the fundamental changes in philosophy introduced by the 1939 amendments. Mr. Myers then tells us of the various proposals made in recent years by special bodies appointed to study the problem of social security. In his modesty, Mr. Myers neglects to tell us that he was a consultant to these bodies and that these committees were probably guided to a great extent by his technical findings. Be that as it may, some of the recent proposals advocated a still further departure from individual equity

and orthodox methods of financing. The 1950 amendments went a long way in the direction of scrapping the notion of individual equity, but restored the principle of accumulating large reserves with the system being self-supporting and without subsidies.

These are very interesting problems, and there is a good deal of difference of opinion in these respects among authorities in the field. It is understandable why Mr. Myers has chosen not to express his personal views on these and other important controversial issues. The reader is thus unfortunately deprived of the benefit of Mr. Myers's opinions and the reasons behind them. This omission is, however, overcompensated by giving the reader all the facts in their proper historical setting, which is perhaps even more valuable to the true student.

I have seen a number of books, articles, and pamphlets on the new social security law, but in none of those have I found such a clear and concise exposition of the salient feature of the 1950 amendments as that given us in Mr. Myers's paper. For actuaries, this paper will serve as a comprehensive and easily accessible source of reference for a long time to come.

In the section on actuarial cost estimates, Mr. Myers presents the results of these estimates but refers us to other sources for the methodology used. I am not sure whether the author should not have taken the trouble of presenting a brief description of the methodology right in the paper itself. After all, not many actuaries are familiar with the projection methods used by Mr. Myers and his staff and with the basic source material which is utilized in preparing these projections. I realize that a full description would require a book not a paper, but an outline of the highlights could probably be squeezed in. Speaking of a book, I for one would welcome an actuarial text book dealing with social security and related programs. What I have in mind is something like *Social Insurance in Britain*, by Charles E. Clarke, F.I.A., which was published in 1950 by the Institute of Actuaries and Faculty of Actuaries. It is my belief that social security is of sufficient importance to warrant the preparation of an actuarial study, since no other good book on the subject is available. The profession certainly has the people who would do an admirable job of writing such a book.

Coming back to the actuarial cost estimates for the OASI system, I would like to call Mr. Myers's attention to a paper written by two economists who severely criticize his methods and his findings. The paper I am referring to is entitled "Long-Range Cost Estimates for Old-Age Insurance" by Charles Killingsworth and Gertrude Schroeder, which appeared in the May 1951 issue of the *Quarterly Journal of Economics*.

The two authors charge that Mr. Myers's cost estimates suffer from the following weaknesses:

1. The factors for the high and low cost assumptions have been grouped with virtually no regard for internal consistency.
2. The extremely wide ranges that had been used in the cost studies are a hedging device.
3. The use of the level wage assumption is grossly misleading in the sense that the resulting cost figures actually do not refer to the existing program, but to a hypothetical program which would constantly maintain the present relationships between benefits and wages.
4. The specialists best qualified to make long-range cost estimates for old-age insurance are not actuaries but economists.

The paper contains a number of fallacious arguments and erroneous conclusions which, however, are not easily detectable. It might be a good idea for Mr. Myers to bring these fallacies and errors to the surface and also to discuss some of the general problems raised, like the use of ranges and the use of the level wage assumption.

The 1950 amendments to the Social Security Act may necessitate changes in other public retirement systems like railroad retirement and civil service. The latter systems cannot easily justify the payment of benefits lower than social security in large numbers of cases while at the same time charging higher rates of contributions. As things work out, short service employees will generally do better under social security than under a system of the usual pension fund type. It is also possible that before long some state and municipal retirement systems will begin to question the wisdom of their insistence on staying outside social security. Some legislative proposals have already been advanced in these areas. It will also be interesting to follow the future labor union policies with respect to pension plans integrated with social security. Another thing which remains to be seen is whether the new lump-sum death benefit will have an adverse effect on the industrial business of life insurance companies.

ELIZABETH W. WILSON:

To me, the most interesting statement in Mr. Myers's enlightening paper was that fifty years hence old age and survivorship insurance may well cost anywhere from less than six to more than ten percent of the employers' payroll. To get these figures, he took account of several variables, such as the unemployment rate, the mortality rate and so on. However, there is one unknown which he did not, he could not, take into consideration. That is what liberalizing amendments the Congress may make in the Act.

Recently, the Federal Security Agency reported that the amendments made by the 81st Congress increased benefit payments almost 140 percent over those made during the previous fiscal year. Future Congresses may follow a similar primrose path.

Of course, a ten percent cost would not wreck the American economy, but welfare state advocates are not content with one type of social insurance. They want total and permanent disability coverage, temporary disability coverage, unemployment insurance and socialized medicine. What the total bill would be is anybody's guess. In Britain, Lord Beveridge's assistant estimated that the ultimate cost of the Welfare State would be 24 percent of the national income, but the National Health Service alone is costing three times the amount he anticipated.

In Brazil, the cost of social security by itself is somewhere between 20 and 26 percent of the payroll, but other "fringe benefits" about double this figure. The result? *Business Week* reports, "The inflexible charges against current production [may] doom their economies to a high cost structure in which there is no incentive to greater worker output." Potential underproduction is a really serious danger arising from high social security taxes.

The same is true in France. French employers bear "social costs" which are officially estimated as averaging some 38 percent on top of wages. Although the total wages are not "exceptionally depressed," the take-home pay is so low that French living standards are about "half a century behind." Again, economists trace this to the low productivity of the French worker, which may stem, at least in part, from lack of incentive due to low cash payments.

This situation has happened so frequently that Prof. Pigou, the outstanding welfare economist, has recently admitted that "badly constructed schemes for giving poor people a fairer share of the national cake *may* even make the cake so much smaller that the absolute amount that they receive is actually reduced." He has the example of Britain right before him.

Of course, the Governmental Statistical Office has estimated that British productivity increased 22 percent, 1937-49. The nonpartisan London and Cambridge Economic Service said this was too optimistic by more than 100 percent. Their figure was only 10 percent. Mr. Lewis Ord, the well-known industrial consultant, commented that both figures are abnormally low when one considers the increase in population and the modernization of machinery. He thought it should have been 75 percent! Even Sir Stafford Cripps admitted that the high tax rate was a "disincentive" to production.

Apparently, the *Investors' Chronicle* was right. When the enlarged social security program was begun in Britain in July 1948, it said, "The conclusion seems inescapable that, in endeavouring to provide the population of Britain with maximum safeguards against insecurity, the Government may, in fact, be undermining the whole structure of our society."

M. ALBERT LINTON:

Mr. Myers's paper sets forth clearly and adequately the background and details of the 1950 amendments to the Social Security Act. It will be a continuing valuable source of information for study and reference. What I shall have to say is in the interest of further development of the OASI program so that it may more fully serve the needs of the country.

The new amendments have made possible the inclusion in the system of nearly ten million new workers. This would bring the total jobs covered to some 75 percent of all jobs. The remaining 25 percent is too large a residue for the best operation of the program. Too many persons move in and out of covered employment, and too many are or will be without an insured status when benefits would otherwise be payable. In consequence, too large a number of persons become dependent upon Public Assistance in the old age or dependent children categories. A wider extension of coverage is important. In cases like the Civil Service or Railroad employment, the basic protection should be OASI with any desirable additional benefits superimposed, as in the case of retirement plans in industry and commerce.

Looking back over the past it becomes apparent that an initial mistake in setting up the system was in not treating the old age security problem as a unit to be solved through the use of a single basic program. Instead there were two systems, OASI and then Public Assistance for those already advanced in years who were not included in OASI. Public Assistance was originally looked upon as a transition device until the time when practically everyone would be covered by OASI. Instead, because of the war inflation and political pressures in some states, the free Public Assistance benefits were increased in a manner to threaten the OASI system. The 1950 amendments were intended to correct this situation for the great majority of the population. However, there are still several states where Assistance benefits on the average far exceed OASI benefits.

In setting up the OASI program the ultimate goal was a contributory system that eventually would cover practically all jobs, supported by taxes based upon earnings, and with benefits reasonably related to the levels of earnings. The benefits were to be held within upper limits which

still left ample opportunity for the exercise of individual initiative and thrift in providing more than the Social Security "basic floor of protection."

As in the setting up of any pension plan for a group made up of persons with a wide range of ages from young to old, credits for past service pose major problems. If the pensions are to be useful to those already advanced in years, someone must cover these past service credits so that the older workers will receive benefits which will be very large as compared with the contributions they may have paid. In due course, as they pass off the scene, the relationship between contributions and benefits for those who have been in the system for longer periods becomes more reasonable. The transition period, of course, produces apparent anomalies which the average person does not understand without explanation.

Had this situation been fully grasped, the proper solution of the old age security problem could have been found through the inclusion of the already retired aged in a single OASI system. Many obviously would have been included who would have made no contributions—that is, the income of the system, in essence, would be covering their past service credits. Under a plan of this kind there would have been little or no need for Public Assistance in the area covered by OASI. If the individual states had desired to supplement the OASI benefits they could have done so. However, the stimulus to unsound benefits provided by the present Public Assistance programs would have been avoided.

Another advantage of such a plan would be that we of this generation would be bearing a more reasonable pension load as compared with the heavy one we are passing on to those who will come after us. The present program postpones to the future too large a proportion of the pension costs. By increasing the present outlays we would be likely to deal more realistically with OASI benefits. There would be much less likelihood of adopting benefit schedules which could pile up dangerously heavy deferred costs. Increases in the formula would have immediate effect, making it necessary simultaneously to find the money to pay for larger benefits.

Those of us who do not favor building a large reserve would welcome the change, as the excess of income over outgo of the system would be practically eliminated. The present reserve of over \$14 billion should be adequate as a contingency reserve for many years to come.

It is not too late to make the change. The Senate has already provided for a study, among other things of the possible extension of the OASI system to the present retired aged. It is to be hoped that this may be

carried through before long. The distinction is already too great between the retired aged person who is not eligible for OASI benefits, for example, and one who became eligible through mere token contributions. If the program is in essence providing past service credits for one segment of the population it should do it for all.

One of the basic difficulties all along has been the concept in many quarters that the OASI program at bottom resembles a savings program. In other words, many have the idea that it would be a mistake to use current payroll taxes to provide benefits for those who have not made contributions. Basically, of course, the program is not one of savings. The proper concept should be that those presently working provide out of their incomes for those who have become too old to work. In turn, present workers will look to other workers in the future for protection when they themselves become old. After the transition period of a decade or two, the great bulk of those receiving benefits would have made substantial contributions, and, as already noted, the longer the system remains in effect the more reasonable the relationship between contributions and benefits.

Two basic concepts underlie the OASI program. One is that it should be supported by direct taxes. The ultimate aim is that those who are to receive benefits should pay for them by related direct contributions. It becomes dangerous when direct personal benefits of this kind are supported by general or indirect taxes. Pressure groups then attempt to get as much as possible from less powerful groups and the program risks being destroyed by the political forces thereby generated. The present payroll taxes have been accepted by the country. To replace them by some general tax system or by income taxes with large exemptions would open a Pandora's box of troubles.

The other basic concept is that there should be some reasonable variations in benefits as related to previous earnings. The variations in costs and standards of living throughout this country are so large that the attempt to adopt level benefits for all could easily lead to serious results. A level of benefits that would be acceptable to the skilled workers in industry would be relatively luxurious for many other groups, especially in the South. The continuous pressure to lift benefit levels and throw the burden of cost upon general or hidden taxes could do great damage to the economy of the country.

Therefore, both Advisory Councils made up of representatives of all sections of the population believed that two essentials of a sound Social Security system for this country would be (1) that it should be financed by direct taxes paid by the individual and (2) that it should provide bene-

fits reasonably related to earnings up to a certain level. The following is taken from the report of the second Advisory Council, made in April of 1948:

The Council favors as the foundation of the Social Security system the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

*Is the Reserve Real?*

Under the present program the current payroll tax payments are much larger than current outgo. Since it went into effect in 1935 a reserve of more than \$14 billion invested in Government bonds has been accumulated. The presence of this large sum, as well as the presence of the current excess of income over outgo, is an open invitation to liberalize benefits unwisely, or to divert the funds to other purposes. The successful functioning of a system of this kind is, I believe, most likely to be achieved if income and outgo are substantially balanced, accompanied by the presence of a reasonable contingency reserve to offset fluctuations.

It is not my purpose to present arguments as to whether a system such as OASI should be fully funded and supported by actuarial reserves, or should be operated so that income and outgo are in reasonable balance. That was discussed in tedious detail in actuarial meetings following the adoption of the Social Security Act. What I shall say will be related to the statements now and then still encountered to the effect that the existing reserve is no real reserve at all since it consists of the obligations of one branch of the Government to another and represents funds which were loaned to the Treasury and promptly spent.

How this misconception of an unreal reserve could continue as long as it has is a mystery to me. I wonder whether it would have ever come into being if the operation of the system had been put into the hands of a private corporation, say a giant life insurance company created for the purpose. The payroll taxes as collected would then be paid to the corporation, which in turn would pay all benefits and expenses and invest in Government bonds any remaining excess of income over outgo. The un-

derstanding would be that any future deficits in the system would be covered by Government appropriations from other sources of taxation.

The operations of such a system would be quite comparable to those of a regular life insurance company, with the exception that the actuarial equivalence of individual premiums and benefits would not be maintained. Would the reserve fund resulting from the investment of excess income in U. S. Government bonds be a "phony" because the Government spent the proceeds? If so, then the reserve funds of the life insurance companies invested to the extent of some \$11 billions in U. S. Government securities would also be phonies. The fact that the Government bonds are in the hands of trustees who happen to be Government officers does not alter the basic characteristics of the system.

At the International Congress of Actuaries held in Holland in June I presented a paper which discussed the fallacies of the foregoing arguments. What I am about to say is based largely upon statements made in that paper.

Consider first the situation where the Government is compelled to borrow, as in time of war. When there is an excess of income over outgo in the Social Security system, is it not clear that the borrowing of such excess income is as desirable as borrowing from any other source—and more desirable than borrowings from the commercial banks, which involve corresponding inflationary increases in bank deposits? The bonds in the hands of the trustees of the OASI trust fund are on a par with the Government bonds bought by life insurance companies and other investment institutions. No one has as yet seriously contended that such bonds are not valid because the money has been spent by the Government.

In times when the Government does not have to borrow, then the proper use of the borrowed Social Security funds is to reduce publicly held Government debt. This in effect transfers such publicly held debt to the OASI Trust Fund. This occurred during years following the war when the Federal budget was in balance. The bonds in the Trust Fund thus acquired are as valid as any other Government bonds and cannot be said to have come into being in a way to damage the economy.

Real criticism could be directed against the reserve fund principle if the presence of the excess funds led to expenditures that would not have been made had the excess funds not been present to be borrowed. The creation of such debt for unwise or unnecessary purposes would not be in the interest of the economy of the country.

Another spurious argument against the reserve fund has been the claim that its accumulation involves double taxation. First it is pointed out that of the payroll taxes imposed on workers a large proportion is invested in

Government bonds. As interest or principal payments fall due on these bonds, general taxes have to be levied to meet such payments, so that the system imposes unjustifiable double taxation which would be avoided if the program were on a "pay-as-you-go" basis with annual income and outgo about balancing each other. Despite repeated attempts to dispel this charge, including extended statements by both Advisory Councils, it crops up today in many places.

Perhaps the clearest way to show the error in the charge is to consider a concrete example. Suppose the OASI Trust Fund consists of \$10 billion of Government bonds bearing an average interest rate of 2%. The annual interest charge is therefore \$200 million. To provide this interest, \$200 million of taxes must be levied on general taxpayers. Had the \$10 billion of bonds been in the hands of the public, the \$200 million would have been paid to public holders. But since the bonds are in the OASI Trust Fund, the \$200 million are paid to the Fund thereby relieving the Social Security system of levying \$200 million of payroll or other taxes.

Therefore, the dollars of taxes raised to pay the interest on the bonds in the Trust Fund are "double duty" dollars, serving two purposes. First, they pay interest that would have to be paid in any event, whoever held the bonds, and second, they relieve Social Security or other taxpayers of an equal burden. A similar statement can be made about taxes raised to meet principal payments on the Trust Fund bonds. Thus it becomes clear that the double taxation argument is not valid. On the contrary the proper use of the reserve fund principle actually prevents the double taxation that would have been required if the Trust Fund had not been in existence.

REINHARD A. HOHAUS:

Once again Mr. Myers has given us an excellent review of important developments in OASI, with background material to aid us in appraising a number of important issues. While few, if any, of these issues have been finally disposed of by the 1950 amendments, encouraging steps were taken towards a current solution of some. On the other hand, some major issues have been deferred—whether because of their intractable nature, or because the time was not yet ripe for attempting a solution.

So comprehensive is the present paper that a discussion, unless it is to rival in length the paper itself, must necessarily be confined to one, or a few, of the many major phases that invite observation. As I have indicated on other occasions, there is clearly discernible in OASI a trinity of aspects of which no one can be said to be more important than any other. They are: extent of coverage (*i.e.*, what classes of productive or retired

population are included), benefit formula, and basis of financing. Each of these is so related to the other two in the design of the plan as a whole that no realistic approach can ignore their interdependent and interlocking character.

The best summary statement I have seen of the implications flowing from this interdependence of the coverage, benefit and financing aspects is the following passage from the English summary of a paper prepared for the recent International Congress of Actuaries by Mr. Zelenka of Geneva.

The result is that, all other factors being equal, one must give preference to a financial scheme which requires the minimum accumulation of funds; a mechanism which, on the one hand, gives right to benefits in cases in which the risk has occurred before the commencement of a system of social security and which, on the other hand, requires benefits independent or almost independent of the duration of the periods acquired under this scheme, reduces the increase in the number of the beneficiaries as well as the increase in the average benefit and so introduces a greater stability in the total amount of the expenditures; thus, the accumulation of funds is stressed less, and, as a result, the adaptation of the system to another general level of wages becomes easier.

As regards coverage, I believe that all regular workers, self-employed as well as employed, governmentally employed as well as engaged in industry, commerce, agricultural and domestic service, should be brought under OASI coverage to the greatest extent feasible. Not only so, but a sound social insurance plan must reach out to include all the present retired aged who, by reasons of age or lack of covered employment since 1937, have never had the opportunity to qualify for benefits. Though the 1950 amendments took a long step towards bringing in some of these persons, through its extensions of coverage or its lowering of barriers to eligibility, much remains to be done. There are today perhaps 4,000,000 people over age 65 not likely to qualify for contributory benefits under existing law. To the extent that they meet the highly variable standards of need in their respective states, they are recipients of assistance payments, which the Federal Treasury supports in part on a basis that lends itself to exploitation by some states to the financial detriment of others.

As regards benefits, I heartily endorse the step taken in 1950 to meet the requirement that benefits be "independent or almost independent of the duration of the periods acquired under this scheme." Elimination of the increment was an eminently sound move, whether from the standpoint of putting and keeping benefits on a realistic level, of facilitating subsequent adjustment to wage levels, or of promoting financial stability. While benefits should at all times be large enough to constitute a substan-

tial factor in keeping people from becoming public charges, they should never be on a scale calculated to discourage initiative and thrift. Room should be left for supplementary protection, attained individually or by cooperation with the employer and other employees.

Finally, as regards financing, the 1950 amendments in the field of coverage and benefits should operate to reduce somewhat the rate of increase in the prospective outgo curve so that, other things being equal, "the accumulation of funds is stressed less," as our quotation puts it. However, a much more significant move in this direction would be the inclusion of all persons now age 65 who retire. To that extent not only the financing but the administration and, so to speak, the politics of the plan would be put on a more realistic basis. Income and expenditures would be in a much closer current relationship, so that when new proposals for expanding benefits are under consideration, the question of where the money is to come from would be a far more vital one than when large current excesses of income over outgo are available, the connection between such excesses and future benefit loads being none too clear to the average citizen. Then, too, the recurrent controversies as to the use (investment) and subsequent replacement of current surpluses (the reserve problem) would be greatly mitigated, and perhaps eventually eliminated.

Not the least of the products, or by-products, of the foregoing philosophy is that absorption of the present retired aged into the OASI system, combined with the broadest feasible extension of coverage, would facilitate the highly desirable step of taking the Federal Treasury out of the old-age assistance field.

When OASI was first adopted it was the clear intent that it should increasingly take over the burden of governmental provision for the aged. It was believed that old-age assistance, after serving as a temporary stop-gap, would then shrink to the mere residual program it was intended to be. But history belied these plans and expectations. Evidently there were powerful forces at work rendering it easy to legislate liberalizations of the Federal grants-in-aid leading to expansion of the assistances (see Table 1 of the paper), with a corresponding failure to do anything about either the coverage or the benefits of OASI.

When in the fall of 1949 the House passed its version of H.R. 6000, proposing yet another step along this road, it seemed that it would be only a matter of time before the insurance program would be discarded in favor of a "free" universal old age pension system. In fact many, including myself, became convinced that this country was facing a domestic issue of the utmost gravity. Fortunately, Congress appeared to sense as much, and the 1950 amendments represent, by and large, a courageous effort to halt

the unequal race between OASI and the Assistances and to redress the balance in favor of the former. However, this year's happenings show plainly that the contrary forces are still very much alive, as evidenced by the Senate's adoption in July of an amendment which, by further liberalizing Federal support of the assistances, would go a long way towards undoing last year's progress towards a reasonable relationship between them and OASI. To date the House has not concurred in this amendment, and it is to be hoped it will not do so, since its enactment would certainly upset the delicate balance achieved last year.

What is needed is a moratorium on further changes until there has been an opportunity to study thoroughly ways and means to extend coverage to all in productive work, and to bring all the present retired aged within the plan for at least minimum benefits. If those two steps are taken, it is quite probable the financing issues will be readily and satisfactorily resolved.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

The several discussions of my paper have been most gratifying since they add so greatly to the subject matter presented. The paper itself was limited to a factual analysis, while much of the discussion was profitably devoted to the various individuals' basic views on social security. Actuaries in Government are always glad to have other actuaries take an interest in these public programs which play such an important part in the nation's economy. For instance, a recent Actuarial Study of the Social Security Administration by Mr. Shudde indicates that the amount of life insurance in force under the survivor benefits of OASI is roughly \$190 billion. With so vast a public program, actuarial advice and comments are most essential and are welcomed from all members of the profession.

Mr. Williamson deals primarily with criticism of the level-premium cost concept, but also comments on the entire plan. As to the level-premium cost concept, I believe that regardless of whether there is full reserve, partial reserve, or no reserve financing, this concept is a valuable yardstick for measuring costs of one plan as against those of another. It is true, as Mr. Williamson says, that there is a considerable degree of uncertainty in such long-range estimates. However, in my opinion, if the same cost assumptions are used in each case comparative analyses can be quite valid. Moreover, it is necessary and essential that long-range cost estimates be made. If we do not use the cost figures for many years hence (which, of course, are the most questionable), the emphasis might be placed only on considering the costs in the immediate future. This would

be a dangerous policy to follow—whether under a program like OASI or under a Social Budgeting program such as Mr. Williamson advocates, since in any event costs will definitely rise steadily over the next 50 years. If the emphasis were only on the first few years, unsound proposals could apparently be readily financed. Accordingly, despite its limitation, I believe that the level-premium cost is a useful and, for the layman, a fairly understandable concept.

Mr. Williamson also takes issue on a matter of semantics, namely as to whether persons who have met the qualifying conditions as to age and insured status but have not stopped covered employment are “eligible” for OASI benefits. In my opinion, some specific nomenclature for this category is desirable, and I think “eligible” is the proper one. As a parallel situation, we talk about a man being eligible for marriage if he has attained a certain minimum age and if he has certain other “insured status” requirements, such as sound health and not presently married. However, this individual although eligible for marriage has not satisfied the final requirements for being married, namely, convincing the girl, obtaining a license and appearing before a preacher.

Miss Wilson considers the ultimate estimated cost for the program which ranges from 6% to more than 10% of payroll, and then goes on to speculate that these figures may be appreciably higher because of liberalizing amendments in the future. It is well to note in this connection that when the Social Security Act was originally passed, the single cost estimate made showed a cost of about 10% of payroll so that over the last 15 years, despite liberalizing amendments, the ultimate cost has not skyrocketed, but rather has remained no higher than under the original plan. The “liberalizations” have, in effect, merely kept the adequacy of the plan constant.

Miss Wilson goes on to point out the very high cost of social security in other countries, such as 20–26% of payroll in Brazil, and 38% of payroll in France, as indicating the dangers of such high social charges. While it is true that there may be dangers involved in such situations, it should be kept in mind that some of the costs involved in these programs were formerly paid in other ways, at least in part, so that they were not brand-new full additional charges against the worker’s pocketbook. For instance, I believe that 4% of the 38% charge shown for France is for 2-week vacations, which we on this continent normally grant through another accounting device, namely continuing salaries.

Mr. Niessen points out that the Congress has now adopted a self-supporting contribution schedule for the OASI program and that perhaps for this reason any changes in the schedule in the future will be based on ac-

tuarial considerations rather than be haphazard or political as in the past. As to this matter, I think that we can only "wait and see." Mr. Niessen also mentions a paper by two economists criticizing the actuarial cost estimates and indicating their belief that economists rather than actuaries should make long-range cost estimates.

I shall not take up the space here to refute their arguments, which Mr. Niessen so ably summarized, since I intend to prepare a full-length reply for the same periodical.

Mr. Linton gives a valuable supplement to the paper by going into detail in regard to his philosophy and thinking as to what the OASI program should be and further as to its relationship with public assistance. He outlines a plan which has been more and more advocated in recent years, namely granting at least minimum benefits to everybody over age 65, and then doing away with the Federal share of old-age assistance. By analogy with a private pension plan, he indicates why payments to individuals who have not contributed can properly be paid by the system. If this is done, the contribution schedule can be arranged so that the Trust Fund will not grow above its present size, which is sufficiently large for a contingency reserve. As Mr. Linton points out, the Trust Fund is very definitely a "real" fund.

Mr. Hohaus recommends changes along the lines advocated by Mr. Linton, and he recognizes that, with such changes, universal coverage is not only desirable but essential. However, I suppose that for administrative reasons certain intermittent categories of employment would not necessarily need to be included, since individuals so engaged would probably receive minimum benefits anyhow. The additional administrative cost to the employers and to the program for collecting contributions and reporting might not warrant such coverage in those cases. Such categories might include very irregularly employed domestic and agricultural workers (on a much less restrictive test than present coverage requirements of these groups). Mr. Hohaus also gives a very fine exposition of the importance of the three factors: coverage, benefits, and financing basis. Actually, I think that although all three are equally important in one sense, yet if the first two are well arranged, throughout, the last will more or less be automatically resolved.